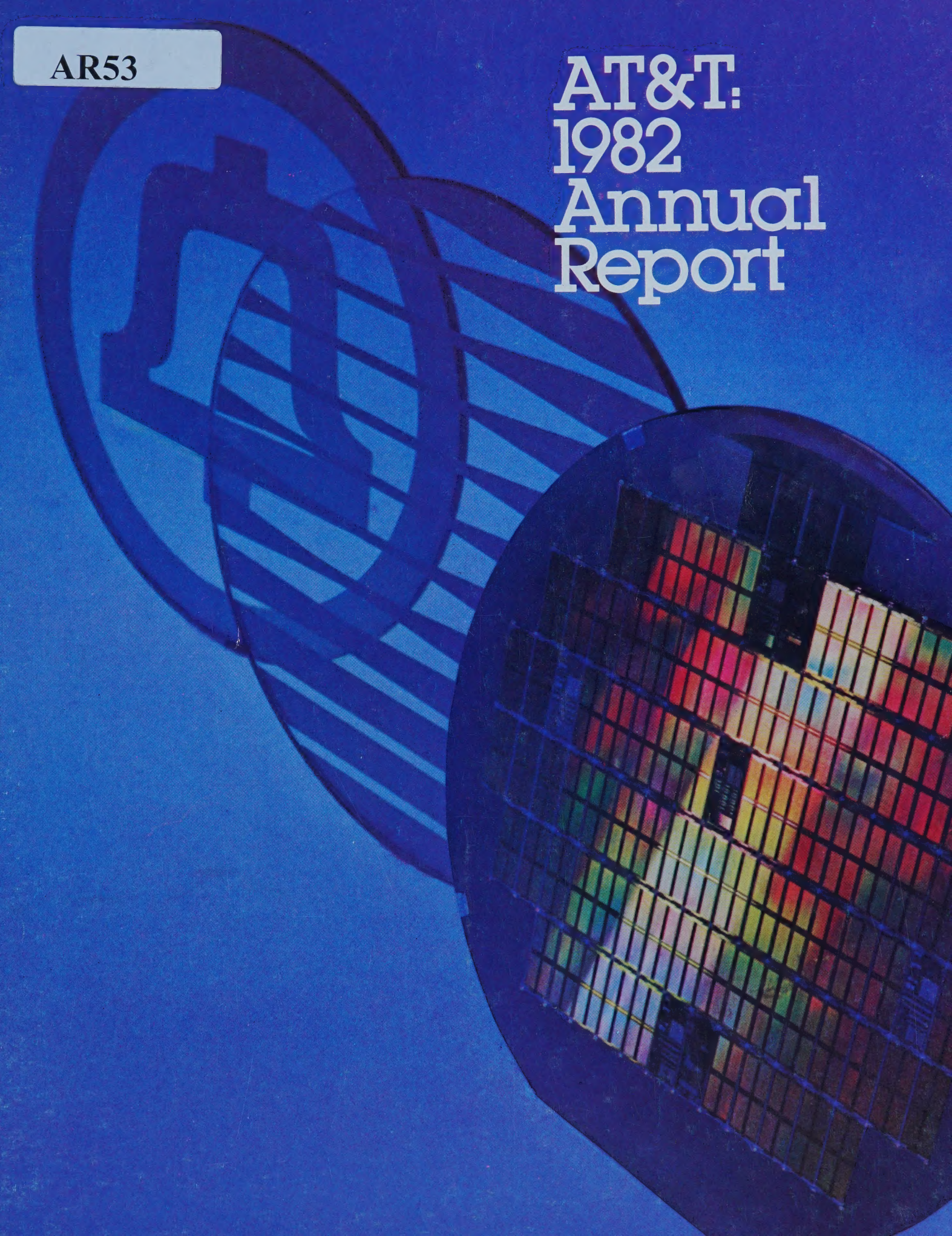


AR53

AT&T: 1982 Annual Report



1983 Annual Meeting

The 98th Annual Meeting of AT&T share owners will be held at 2 p.m. on Wednesday, April 20, 1983, at the Georgia World Congress Center in Atlanta, Georgia.

Information of Interest to Share Owners

The consolidated financial results in this report are for American Telephone and Telegraph Company and its subsidiaries.

If you wish further information, the following are available upon request:

- 1982 Statistical Report, with additional data on our operations.
- Form 10-K, AT&T's annual report to the Securities and Exchange Commission.
- Annual reports of the Bell telephone operating companies, the Western Electric Company and Bell Laboratories.
- Information regularly furnished to employees relating to various Bell System benefit plans.
- Information on charitable contributions.

The AT&T Annual Report will be available in braille, talking records and cassettes.

Address requests to the Secretary, AT&T Co., Room 2615, 195 Broadway, New York, NY 10007. The telephone number of the Company is 212-393-9800.

Information on AT&T common and preferred stock, bonds, dividends or interest payments and the Dividend Reinvestment and Stock Purchase Plan can be obtained by calling without charge 800-631-3311 or, from New Jersey, 800-352-4900. Mailed inquiries should be addressed to AT&T Co., P.O. Box 2018, New Brunswick, NJ 08903. The Company maintains stock transfer offices at 250 Broadway, 15th floor, New York, NY 10007 and at 444 Hoes Lane, Piscataway, NJ 08854.

American Telephone and Telegraph Company 1982 Annual Report

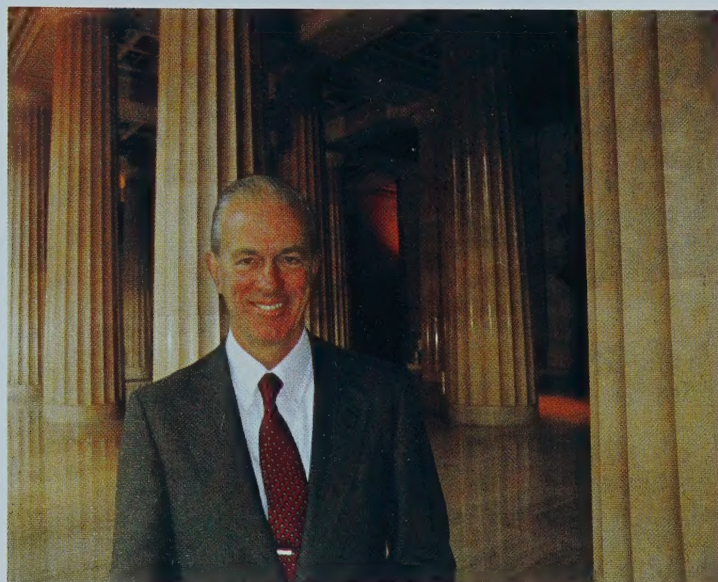
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On the Cover

Symbolizing Bell System leadership in Information Age technology, this silicon wafer contains dozens of our new 256K random access memory chips. Symbolizing the start of restructuring in the Bell System are the traditional Bell seal and the mark of our new subsidiary, American Bell.

Report of the Chairman of the Board



AT&T Chairman Charles L. Brown, in the lobby of AT&T headquarters at 195 Broadway in New York City.

Dear Share Owner:

Nineteen eighty-two was an extraordinary year for the Bell System.

What especially made it so, of course, was the Consent Decree agreement reached in January with the Department of Justice.

But it was extraordinary, too, because of the effort that went into laying the groundwork for what will be the most extensive restructuring ever undertaken by a corporate enterprise.

Much of this Annual Re-

port is devoted to examining aspects of that restructuring.

Reduced Growth

As in other recessions, the demand for Bell System service in 1982 increased but at a slackened pace.

Our overall volume of business was up about 4.4 percent over 1981, but gains in local and long distance calling volumes were well below the growth trends of recent years.

Net income for the year was \$7.28 billion, an increase of 6.7 percent.

Earnings per share, based on 849,550,000 average shares outstanding—about 61.4 million more than the previous year—were \$8.40, compared with \$8.47 in 1981.

The unrelieved weakness of the economy was easily the principal challenge to earnings that we confronted. It was clearly reflected in the reduced demand experienced by Western Electric and in the slower growth by our operating units.

With regard to Western Electric, a long term plan has been developed to downsize the company's manufacturing capacity. The full effect of the costs of doing so was absorbed in 1982.

The decision to phase out one plant and reduce operations at others was as inescapable as it was difficult. Under any conditions, but especially in today's increasingly competitive environment, it is essential that Western Electric continuously seek to improve the utilization of its plant and to reduce its costs.

That our earnings were not more seriously affected is a tribute to the efforts of Bell System managers to limit operating expenses. Also critical were Bell System productivity gains which, as in former years, were higher by a wide margin than the productivity improvement of the overall private economy.

Another positive factor in

our financial results for 1982 was an accounting change made to bring our reporting of deferred taxes into line with ratemaking practices of state regulatory commissions.

In other tax matters, legislation enacted by Congress clarifies Pacific Telephone's eligibility for certain tax benefits, and substantially reduces a large and unwarranted tax liability which was facing that company.

Important to the Bell System's earnings performance in 1983 will be the timeliness with which state regulators take into account in their ratemaking considerations the higher capital recovery needs of the operating companies.

Important, too, will be our own efforts to offset the added expenses related to divestiture.

But most important of all will be the degree to which economic conditions improve, allowing us to fully bring our technological and marketing capabilities to bear on the marketplace.

The prospects for telecommunications and information services, while brighter than ever before, can only be realized to the fullest in a truly vigorous economy.

Challenge of Competition

As a general comment on the changing nature of this business, competitive inroads continue to be made in markets that in the past were, for all practical purposes, virtually ours alone to serve. Indeed, telecommunications is on its way to becoming one of the most competitive of U.S. industries.

We are not daunted by the prospect of more competition, as long as the ground rules are the same for all. Nor will we be found wanting as strong competitors.

We enter this more com-

Financial Highlights

	1982	1981
Earnings per share	\$ 8.40	\$ 8.47
Dividends declared per common share	\$ 5.40	\$ 5.40
Revenues, including other income (in millions)	\$65,757	\$59,081
Expenses, including accounting change (in millions)	\$58,478	\$52,258
Net income (in millions)	\$ 7,279	\$ 6,823
Rate of return on average total capital	10.0%	10.3%

petitive world *running*.

The products and services that we market are attractively priced, advanced in their technology and reliable in their use.

Removing Uncertainties

In less than a year, the Bell System as it is structured today will be no more.

Acceding to the government's demand that the Bell System be broken up was a painful decision to make. But to continue operating under the uncertainties that were so clouding our future was clearly untenable. We needed to regain the initiative and the control of our business and its future.

And so a major planning effort was undertaken in 1982: planning the divestiture of the local portions of our operating companies, as well as planning to accommodate the Federal Communications Commission's Second Computer Inquiry decision.

Even as we readied ourselves to move in new directions, however, Bell System people continued, day after day, to give the American public excellent communications service.

This commitment to service—this *spirit of service*—that is so characteristic of Bell System men and women is a legacy that will not be lost when AT&T and the operating companies go their separate ways.

In fact, there is much from our past that we consider important to our future: for example, the sense that ours is a business motivated by public interest concerns as well as profit; an abiding concern for our employees, and our continuing commitment to equal employment opportunity and affirmative action, a commitment reemphasized in new agreements reached with the government in 1982.

Simply put, we intend to honor our past *and* fulfill the promise of our future.

A Unique Relationship

The relationship between AT&T and its share owners is a unique one.

With 3.1 million share owners, no other company comes close to having as large a share owner family as AT&T does.

And no other company, I believe, has ever been afforded quite the same degree of loyalty and support from its share owners—many of whom have held their stock for decades, passing it from one generation to another; and many of whom are retired and active Bell System employees.

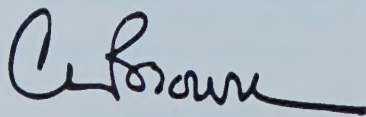
The management of AT&T and of the prospective regional companies want to preserve this relationship.

Our most pressing obligation to you is to carry out the divestiture in a manner that will merit your confidence in AT&T and the divested companies.

We also have a responsibility to help you understand what these coming changes are all about, and how they will affect you.

As the year unfolds and we come closer to the time for divestiture, we will continue to keep you informed.

We thank you for your support in past years, and we look forward to warranting it in the future.



C. L. Brown
February 8, 1983



A Turning Point in Bell System History

For the Bell System, which traces its beginnings back to Alexander Graham Bell's invention of the telephone, 1982 was a turning point.

The Consent Decree agreement announced early in the year requires AT&T to divest the local portions of its 22 wholly owned operating companies—about three-fourths of the Company's total assets.

The government, in turn, agreed to remove restrictions of an old decree limiting AT&T to the regulated telecommunications business, and the antitrust suit filed in 1974 was dismissed.

In other antitrust litigation, a case brought by the Southern Pacific Communications Corp. was dismissed in 1982. Then in January 1983, a \$1.8 billion judgment against AT&T in a suit brought by MCI Communications Corp. was overturned on appeal; and in February, an award of \$276.8 million in damages to Litton Industries Inc. was upheld, but further appeal is being sought.

Decree Is Approved

On August 24, after months of public comment, the 1982 Consent Decree was approved with some changes by Federal District Court Judge Harold H. Greene.

The Company was given

18 months to carry out the divestiture.

Attorneys representing several states and private organizations subsequently undertook to appeal the Judge's decision. To expedite the process, Judge Greene referred the appeals directly to the U.S. Supreme Court.

As the year drew to a close, AT&T presented details of its plan to implement the Consent Decree by reorganizing the 22 operating companies into seven independent regional organizations.

Ownership of the seven companies will pass to AT&T share owners at the time of divestiture—currently scheduled to take place on January 1, 1984.

The AT&T reorganization plan, filed in December, is subject to approval by the Court. In statements filed with the Court, several of the designated chief executive officers of the new regional companies took issue with parts of the plan.

The plan envisions a corporate structure very different from the one that, over a century and more, came to be known as the Bell System.

Regional Units Planned

The seven new regional companies will be roughly the same in terms of assets, revenues and number of employees. Each will have its own officers, staff and board of directors.

The new companies will be independent not only of AT&T but also of each other. However, they will share ownership of a central services organization.

Although they will be reorganized into the seven regional concerns, the 22 divested telephone companies will continue operating in the same territories they now serve.

(See pages 10 through 15 for detailed information about the Bell operating companies.)

Cincinnati Bell Inc. and The Southern New England Telephone Company, in which AT&T holds only a minority ownership, were not included in the divestiture requirement.

Forming a New AT&T

The principal organizations that will form the new AT&T after divestiture are these:

- Western Electric, for manufacturing and supply.
- Bell Laboratories, for research and development.
- A new organization, which will encompass but be much larger than the current Long Lines organization, to provide nationwide long distance service.
- American Bell, providing enhanced communications and information services and equipment for business, government and residence customers.
- AT&T International, to market products and services overseas.

(See pages 16 through 23 for additional details.)

Planning Task Begun

Within days of the Consent Decree's announcement, AT&T and the Bell operating companies began the enormous task of planning the disaggregation of the Bell System.

As part of the planning effort, there was a realign-

ment of executives to reflect the restructuring. And to address major planning and organizational issues, six study teams of operating company presidents and AT&T officers were formed.

One group developed the concept of grouping the divested companies into seven regions, while another focused on plans for the central services organization that will serve the regional companies.

Other groups worked on drawing the boundaries for the new local service areas, identifying and assigning assets, and developing plans for access charges.

Still another task force studied personnel considerations. Although some shifts will be necessary, most Bell employees will continue in the same jobs. Pensions and other benefits will not be changed by divestiture.

Other Terms Explained

The Consent Decree, as it was entered by Judge Greene, includes these provisions:

- AT&T and the divested companies cannot own facilities jointly, but some can be shared through leasing arrangements. Also, billing and certain other services can be provided to AT&T by the local companies.

- The divested companies have a call on the services of AT&T, Western Electric and Bell Laboratories.

- After divestiture, the operating companies can offer new customer premises equipment, but they cannot manufacture it or offer electronic information services.

- AT&T cannot engage in "electronic publishing" over its own transmission facilities for seven years.

- The boundaries of the divested companies' new local service areas will be based on communities of interest, using the govern-

Left: Bell System planners track the most complex corporate restructuring ever undertaken.

ment's definition of metropolitan areas as a guideline. Called Local Access and Transport Areas (or LATAs), these service areas will each cover several local telephone exchanges.

Calls *within* these areas—including some short-haul toll calls—will be handled by the Bell operating companies. Calls *between* them—commonly referred to as “interexchange” or “long distance”—will be handled by AT&T and other long distance carriers.

• The local operating companies are required to provide all long distance carriers—AT&T and others—with access to their facilities that is “equal in type, quality and price.”

New FCC Rules in Effect

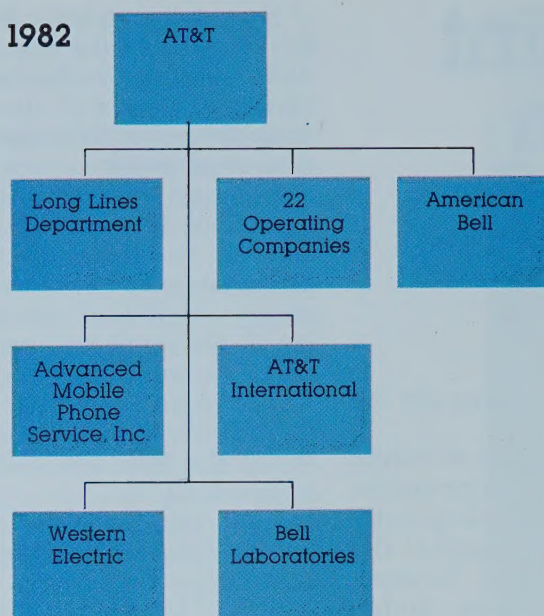
Even more imminent in 1982 than the Consent Decree changes were regulatory changes ordered by the FCC in its Second Computer Inquiry decision.

Under the new FCC rules, AT&T can offer enhanced services and, as of January 1, 1983, newly manufactured customer equipment on a detariffed basis—that is, without having to file tariffs beforehand with federal and state regulatory authorities. To provide detariffed products and services, AT&T had to form a fully separate subsidiary.

Basic local and long distance services remain under traditional regulation. So too, for the time being, do telephones and other customer equipment already in service or in the telephone companies' inventory.

AT&T has asked that this equipment be detariffed and transferred from the telephone companies to American Bell by the time of divestiture. Otherwise, AT&T will create an organization to handle this in-place customer equipment. ■

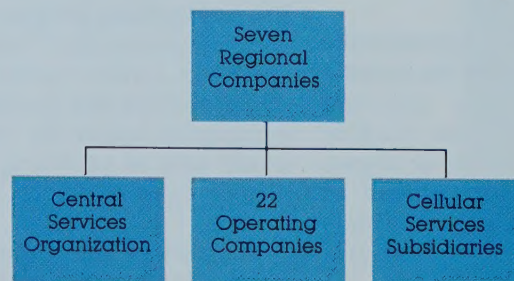
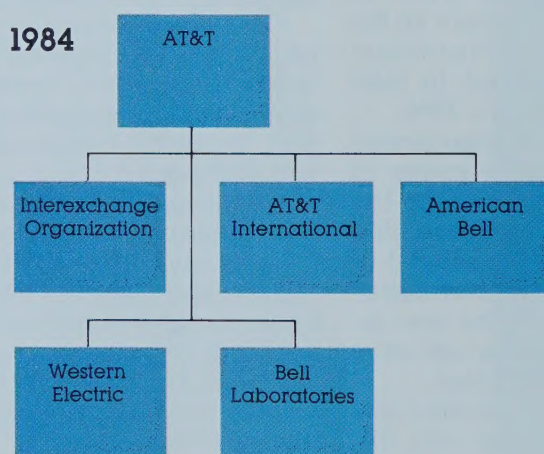
1982



Above: The Bell System as it was at the end of 1982—a single integrated organization.

Below: AT&T and the seven regional companies as they will be organized after divestiture takes place in 1984. For a more detailed view of the regional company structure, see the illustration on page 12.

1984



Divestiture: What It Will Mean to AT&T Share Owners

As the Annual Report went to press, our reorganization plan was awaiting Court approval. The following information capsulizes that part of the plan relating to the distribution of regional company stock to AT&T common share owners at the time of divestiture, scheduled for January 1, 1984.

Instead of owning stock in just AT&T, you will own stock in *eight* companies: AT&T and the seven regional companies into which the 22 divested operating companies will be grouped.

As explained later, however, some share owners—those with at least 10 but fewer than 500 shares of AT&T—will be given an opportunity to consolidate their holdings in the regional companies should they elect to do so.

One for Ten Ratio

You can determine how many shares you would own in the seven new companies by using a one for 10 (1:10) ratio. That is, for every 10 shares of AT&T common stock you own, you would be entitled to one share in *each* of the seven regional companies.

So, if you own 20 AT&T

shares, you would be entitled to two shares in each of the seven regional companies, and you would still own the same 20 AT&T shares.

A hundred AT&T shares? You would be entitled to 10 shares in each of the regional companies and the same 100 AT&T shares.

After divestiture, the initial market value of AT&T stock will in all likelihood be lower than when AT&T shares included ownership of the operating companies. The market value of the regional companies' shares, as well as AT&T shares, will be determined—as with any stock—by trading on the stock exchanges.

500 or More Shares

If you hold *500 or more shares of AT&T*, you will be issued stock certificates, probably in February 1984, for the whole shares that are due you in the seven regional companies. You will be sent cash from the sale of any left-over fractional shares.

You will also be given the opportunity to enroll in the Dividend Reinvestment and Stock Purchase Plans that the regional companies are expected to establish.

(AT&T already has such a plan through which additional shares can be purchased without fees of any kind. When some or all dividends are reinvested, the shares are purchased at a five percent discount.)

Fewer than 500 Shares

If you hold *at least 10 but fewer than 500 shares of AT&T*, you will be sent a return mail card listing three options from which to choose.

First, you may choose to receive certificates for your

whole shares in any or all of the seven regional companies and cash from the sale of the left-over fractional shares.

Second, you may deposit all your regional company shares (both whole and fractional shares) in the regional companies' dividend reinvestment plans. This way, future dividends will be reinvested toward the purchase of additional shares in the regional companies.

The third option will enable you to consolidate your regional company holdings into one or more of these companies. (You will, of course, continue to hold your original number of AT&T shares.)

That is, at your direction we will arrange to sell your stock in one or more of the regional companies, and invest the proceeds in the stock of one or more of the other regional companies.

For example, you might decide to sell your stock in five of the regional companies, and have the proceeds invested in the other two—or any other combination you choose.

A fee will be charged for consolidating your shareholdings in this manner. However, we expect that this system will enable you to rearrange your holdings at less cost to you than if you were to do so directly through a broker.

(Many of our share owners asked that they be afforded the opportunity to consolidate their accounts. This arrangement, besides being helpful and responsive to share owners, will also reduce the administrative burden on the new regional companies.)

This option does *not* provide for the consolidation of regional company

stock back into AT&T stock. That investment decision would have to be exercised by you through a broker.

Share owners who opt to consolidate their regional company stock in some fashion can elect to get it in certificate form for whole shares and the balance in cash from the sold regional company stock. Or, they can have their holdings placed in the regional companies' dividend reinvestment plans.

The three options will be offered for four to six months after the divestiture date, unless financing conditions require that the period be shortened.

Fewer than 10 Shares

If you hold *fewer than 10 shares of AT&T* (and, using the 1:10 ratio, would therefore qualify for less than a full share in each of the regional companies), you will be sent cash from the sale of your fractional shares in the regional companies.

You will, of course, still own the same number of AT&T shares.

Share owners in this category who would like to qualify for the distribution of regional company stock can do so by increasing their investment in AT&T during 1983. One way to do that is through the AT&T Dividend Reinvestment and Stock Purchase Plan, explained earlier.

What to Look for

Assuming that our reorganization plan receives Court approval by April 1983, this is generally what you can expect to see happen through the rest of the year and into 1984:

In October or November,

boards of directors having been formed for each of the regional companies, dividends for the first quarter of 1984—as determined by these boards—will be announced for the seven companies. At about the time the new companies announce their dividends, AT&T will announce its first quarter dividend for 1984 as well.

Although we cannot predict what, added together, the eight dividends will amount to, the goal of AT&T and the regional companies will be to meet the expectations of share owners and the financial markets.

In November or December, trading of the regional companies' stock will begin on what is known as a "when-issued" basis. That is, the shares will be traded before the certificates are distributed. This way, share owners and other investors will see at what prices the regional company shares are selling even prior to the actual divestiture.

The regional company stock will be traded on the New York Stock Exchange and, if the companies choose, on other exchanges as well.

Near the end of the year, you will receive information describing the regional companies.

In January 1984, you will get a statement listing the number of your AT&T shares and the number of regional company shares to which you are entitled. Those share owners with at least 10 but fewer than 500 shares will, at this time, also receive the return mail card listing the three options described earlier.

In February, the mailing of regional company stock certificates to share owners will begin. ■

Picture Profile:

The Information Age Comes of Age

Although its full impact is only beginning to be felt, information technology is reshaping the way we work and live.

Today, about half the workers in the United States are engaged in generating, gathering or otherwise handling information. And they are doing it with increasingly modern technology—from hand-held or desktop computers to advanced information systems that not only process business data but actually control business processes.

Information Age technology is also penetrating our personal lives. The plummeting cost of solid-state electronics is bringing a host of information tools into the home: electronic games, home computers, interactive information systems

that enable consumers to shop, bank or learn at home.

Much of the technology of the Information Age has come from Bell Laboratories and Western Electric—from the invention of the transistor 36 years ago to recent innovations in microelectronics, lightwave communications technology, information processing systems and software.

Through notable achievements in research and development and by bringing to the marketplace innovative products and services, the Bell System in 1982 demonstrated anew its leadership in pioneering and applying new technology.

Profiled here are but a few of the Bell System's latest responses to the challenges and opportunities of the Information Age.

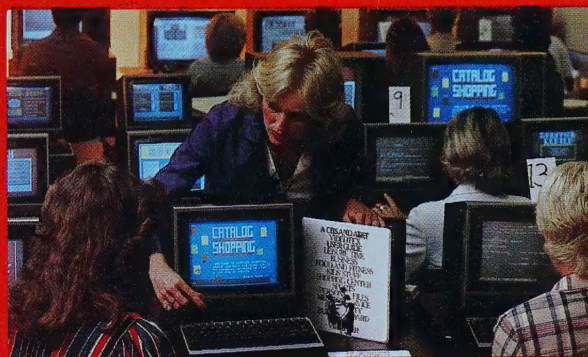


Robotic arm aids in the assembly of electronic components in tests at Western Electric's engineering research center near Princeton, N.J.

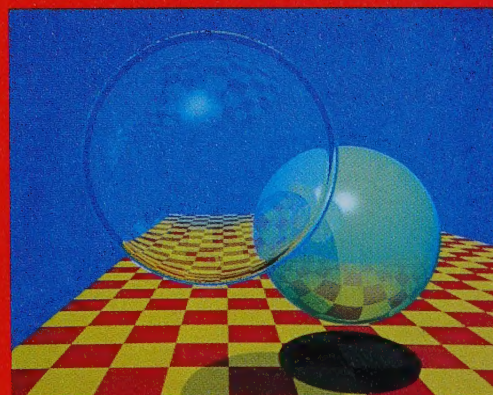


Genesis® teletype system, readied for introduction in 1983, is the first of a new generation of microprocessor-based telephones that can provide customized communications and information services. It offers a range of features—from banking by phone to electronic datebook, answering, intercom and paging services. Features are selected by programming the basic console or by adding auxiliary modules or feature cartridges.

*Trademark AT&T Company

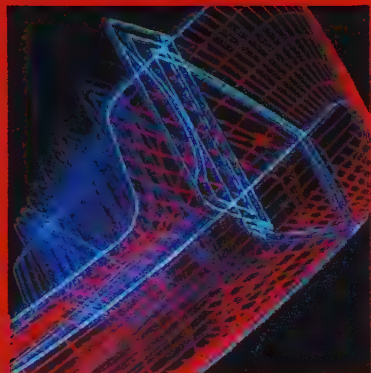


Videotex home information system, being tested in Ridgewood, N.J., links home video terminals (above) to computerized data banks providing information ranging from stock market reports and news to theater reviews and advertising. The system can also be used for shopping and banking from home. The information content is provided by CBS Inc. (top right). AT&T furnishes the home terminals, communications lines and computer facilities. AT&T's new computerized frame creation terminal (top left) produces sophisticated graphics for videotex services. Artwork (lower right) was produced by Bell Laboratories scientist Turner Whitted by feeding mathematic and geometric instructions into a computer.



**Advanced Information
Systems/Net 1000** is an enhanced
service for business users that
allows terminals and computer
systems manufactured and pro-
vided by different companies
to communicate with each other.





Computer-aided design is widely employed in the creation of new telephone sets at Western Electric's Indianapolis facility.

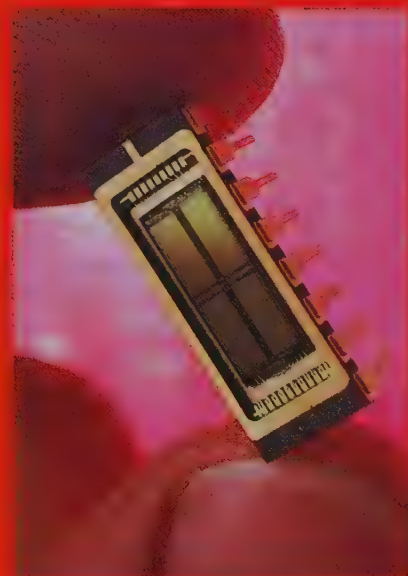


Picturephone® meeting service, using a digital network combining satellite and land-based facilities, provides two-way, full-color video, voice and data transmission between specially-equipped meeting rooms. Inaugurated in 11 cities in 1982, the service is planned for 42 cities.



New integrated business system, known as Dimension* AIS* System 85, was introduced by American Bell in early 1983. Using state-of-the-art digital technology to provide a host of information management capabilities, this system marks a significant step into the office automation market. System 85 is an evolutionary system, designed to be compatible with our existing and future products.

*Service mark of AT&T Company



New 256K memory chip, designed by Bell Labs and produced by Western Electric, packs more than a half-million electronic components on a tiny silicon chip and can store more than a quarter-million bits of information, four times that of previous memory devices.

The Bell Operating Companies: Gateways to the Information Age

Over the years, the Bell operating companies have played a major role in the development of the nation's communications system.

Working together—with a common corporate parent and a common purpose—they have given America the best telephone service in the world.

But this nationwide partnership will be no more when the 22 principal Bell operating companies are spun off from AT&T and grouped into seven regional companies.

Though divestiture will bring changes, the operating companies will continue to be a driving force in the burgeoning telecommunications business.

And, as well as being leaders in their own industry, the seven regional companies will be among the largest corporations in the nation.

As outlined in this section, they will begin their new lives with many inherent strengths, including a pivotal position in a growth industry.

Theirs is an established customer base, and they will be marketing essential services that are growing in use and usefulness. There are no natural impediments to their growth, such as en-



Above: In providing Information Age services, the operating companies will increasingly use local digital switching systems, such as Western Electric's 5ESS with its programmable central processor that can perform an almost limitless range of functions.

Right: Cellular radio service will be a major new source of revenue for the operating companies. Service areas are divided into a honeycomb of small "cells," each equipped with low-power transmitters. This permits the reuse of scarce radio channels. As the caller moves across the city, he is automatically passed from one cell to another.



Far West

- Pacific Telephone
- Nevada Bell

Donald E. Guinn
Chairman,
Pacific Telephone



Mountains and Great Plains

- Northwestern Bell
- Mountain Bell
- Pacific Northwest Bell

Jack A. MacAllister
Chairman,
Northwestern Bell



Southwest

- Southwestern Bell

Zane E. Barnes
President,
Southwestern Bell



Midwest

- Illinois Bell
- Indiana Bell
- Michigan Bell
- Ohio Bell
- Wisconsin Telephone

William L. Weiss
Chairman,
Illinois Bell



Southeast

- South Central Bell
- Southern Bell

Wallace R. Bunn
Chairman,
South Central Bell



Mid-Atlantic

- Bell of Pennsylvania
- Diamond State Telephone Company
- Chesapeake and Potomac Companies (4)
- New Jersey Bell

Thomas E. Bolger
Executive
Vice President,
AT&T



Northeast

- New England Telephone
- New York Telephone

Delbert C. Stal
Chairman,
New York
Telephone



Reorganizing the Bell Operating Companies

After divestiture, the 22 Bell operating telephone companies will be grouped into seven regional companies, each independent of the others and of AT&T. Shown here are the Bell System officers who have been designated chief executive officers for each of the regional companies and the central services organization which these companies will jointly own.



Central Services Organization

Rocco J. Marano
Vice President,
AT&T

vironmental restraints or scarce raw materials.

Financial Strength

The operating companies will be divested in sound financial condition and with strong balance sheets. AT&T will ensure that debt ratios at divestiture comply with the Consent Decree.

During 1983, AT&T, together with the operating companies, will arrange financing to satisfy operational requirements and achieve appropriate debt structures at divestiture.

Grouping the 22 companies into seven regional entities will enhance the new companies' ability to raise external capital and provide opportunities for improved operating efficiency.

Additional economies will flow from the central services organization that the regional companies will jointly own and support.

Providing a range of technical and administrative services on a centralized basis can eliminate costly duplication.

A Customer Gateway

With a high-quality, versatile communications link into virtually every home and office in the territories they serve, the Bell operating companies will be in a unique position to capitalize on the opportunities of the Information Age.

They will profit not only from the services they provide directly but also from those of other suppliers who use operating company facilities to gain access to end users of their services.

For example, through access charges they will share in the growth of long distance service. They may also market their billing services to long distance carriers and vendors of enhanced

services.

Serving as gateways between customers and computerized data bases, the operating companies will share in the growth of information services, such as electronic banking and home information systems, that use telephone lines to link customers to the computerized data.

And, even after divestiture, the Bell operating companies will continue to provide a significant amount of intrastate toll service.

A New Mobile Service

The Bell operating companies will also have a major role in providing an advanced mobile communications service using cellular radio technology conceived by Bell Laboratories.

This service will vastly improve the quality and availability of mobile telephone service in automobiles. It will also pave the way for the eventual use of truly portable telephones and data terminals.

Under the FCC's ground rules, half the available mobile radio frequencies in each market have been reserved for the local telephone companies.

By year's end, AT&T had filed applications, some in conjunction with other telephone companies, to provide cellular service in 55 metropolitan areas.

AT&T's subsidiary, Advanced Mobile Phone Service, Inc., will be phased out by the end of 1983, having formed seven cellular radio subsidiaries which will be spun off to the regional companies.

The growth of cellular radio service is expected to provide an important new

revenue source for the Bell operating companies, as well as markets for Western Electric.

Other Opportunities

The operating companies will have the freedom after divestiture, as they have had in the past, to market new customer premises equipment, such as telephones and office communications systems, as well as central office-based services such as Centrex. And they will continue to furnish directory services, including the profitable Yellow Pages.

The Consent Decree also leaves the door open for future court review of market restrictions that apply at the outset of divestiture.

A Reputation for Service

The Bell operating companies will carry forward a solid, century-old tradition of service excellence.

Our internal measurements and interviews with six million customers annually tell us that Bell System service has never been better. Because there are so few service "weakspots," early last year the FCC abolished the quality of service

reports it had required for more than a decade.

Their reputation for being responsive to customer needs and for providing dependable, high-quality service will give the operating companies a valuable—and marketable—asset in a competitive environment.

Skilled People

In part because of their traditional commitment to service excellence, the Bell companies have been able to attract and keep dedicated and highly-skilled people.

They have strong, forward-looking managements whose technical proficiency has been complemented in recent years by a growing professionalism in marketing and financial planning.

Their employees are among the best trained in American industry. Last year alone, the Bell System spent \$1.8 billion on training.

An Edge in Technology

One of the operating companies' greatest strengths in the new environment will be their advanced technology.

Virtually every aspect of their operations is automated to some degree—from



Right: Centralized maintenance centers, like this one in Salt Lake City, permit Bell operating company technicians to test customer lines hundreds of miles away.

the service order process to installation, repair and billing.

The operating companies will continue to have access to the world's most advanced technology—not only from Western Electric but also from other suppliers.

Coupled with the technical expertise of their own central services organization, this will assure a continuing flow of new technology for use in serving their customers.

Over the years, the companies have invested heavily to improve the efficiency, capacity and capabilities of the local network.

More than 70 percent of their investment represents plant installed since 1974.

Much of this involves digital technology—the movement of information in on-and-off pulses rather than in continuous waves. Digital is the language by which computers communicate. It is the language of the Information Age.

The local network is rapidly evolving into a flexible, all-purpose communications delivery system, capable of handling information in whatever form customers desire—voice, data, graphics or video.

Advanced Switching

More than 55 percent of the Bell System's customer lines are now served by electronic switching systems, up from 51 percent in 1981.

During 1982, some 300 local electronic systems were installed, including the second in a new generation of local switchers—the digital 5ESS, made by Western Electric.

With the availability of the 5ESS and advanced systems from other suppliers, the operating companies plan an even more rapid conversion to electronic switching. It is expected that 90 percent of their customers will be served by electronic switching technology by the end of this decade.

The Trend to Digital

While digital switching of local calls is a relatively new development, the Bell operating companies have long been leaders in the application of digital technology in local transmission facilities.

Today, in metropolitan areas, more than half the trunk lines between central offices are digital. By 1990, that will grow to more than 90 percent.

The Bell companies have

been pioneers, too, in the use of fiber optics, or lightwave communications—a digital technology.

During 1982, they invested \$210 million in lightwave construction. At year-end, more than 60 lightwave systems were in service on Bell System trunk routes.

Upgrading Local Loops

Digital electronics are also being extended to the "local loops"—the lines that run from telephone central offices to the customer's home or office.

With advanced electronics, existing copper wire loops can be equipped to provide significant digital service capabilities as well as additional capacity for voice communications—all at very low additional cost.

One new system will have the capability to provide simultaneous data and voice transmission over a single customer line. For instance, a customer could talk on the phone while another member of the family was using a computer terminal to interact with a distant data bank.

Another data transport service will enable customers to transmit high-speed data over their normal tele-

phone lines.

The operating companies are installing subscriber loop carrier systems which allow a small number of wires to carry many conversations and to transmit information in digital form. The newest of these can pack up to 96 conversations on as few as six copper pairs.

During 1982, a new fiber optics loop carrier system was placed in service. When widely deployed, this system will bring the immense information-carrying capabilities of lightwave technology closer to the customer's doorstep.

Providing wideband transmission services over the loop plant holds great potential for extending a full range of Information Age services to home and business customers.

Challenges of a New Era

While the Bell operating companies will be well positioned in a growing market, they will also face some significant challenges.

There will be growing competition in nearly every part of their business, including the possibility of other carriers bypassing telephone company facilities.

To meet this competition, they will look for new and imaginative ways to market their services—both to their traditional subscribers and to other suppliers of communications and information services.

They will look for new ways to drive down their costs through effective management and the application of new technology.

And, as regulated companies, they will also look to enlightened regulation.

Because the proliferation of Information Age services will mean increased use of exchange facilities, local measured service will be es-

Central Services Organization

The seven regional companies will jointly own a central services organization that will provide many of the services currently provided by AT&T to the 22 operating companies.

This organization will have almost 9,000 employees—including many highly-skilled specialists drawn initially from Bell Laboratories, Western Electric, AT&T headquarters and the Bell

operating companies.

The central services unit will furnish the companies with technical assistance such as network planning, engineering and software development. It will also provide various consulting services and other assistance that can be provided more effectively on a centralized basis.

It will also be a central point of contact for coordi-

nating the efforts of the Bell operating companies in meeting the national security and emergency preparedness requirements of the federal government. And it will help to mobilize the combined resources of the companies in times of natural disasters.

This arrangement has been designed to preserve benefits of the present Bell System structure. ■



Left: Lightwave communications systems are rapidly being deployed around the country by the Bell operating companies. With light-wave technology, conversations are converted into pulses of light and transmitted through tiny glass fibers.

Below: As in other aspects of telephone company operations, advanced technology is being used to increase efficiency of directory assistance services. At this center in Houston, Tex., operators key in the name of the party. The computer then searches out the number and conveys it to the customer in voice form while the operator handles other customer calls.



sential. This involves charging separately for customer access and usage, and pricing local calls according to duration, distance and time of day.

Local measured service is already at least partially available in more than three-fourths of the states.

Realistic network access charges will be required so that long distance carriers will not be encouraged to bypass telephone company facilities.

Historically, long distance service has helped subsidize local service. As a result, local rates have been kept artificially low—and AT&T's long distance rates artificially high.

The advent of competition among long distance carriers is forcing changes in this pricing structure—particularly in the way costs are assessed for using telephone company facilities.

Toward the end of 1982, the FCC set guidelines calling for a combination of flat rate and usage charges that would gradually shift the fixed costs of customer lines (costs now assigned to interstate service but not related to usage) from the carriers to all telephone customers.

For the first four years, AT&T would pay, on a declining scale, a higher charge than other carriers.

These charges will replace the present division of revenues process as a means of compensating the operating companies for use of their facilities.

Prospects for the Future

With a proud past and a promising future, the Bell operating companies are preparing to go their separate ways.

With responsive regulation, there is every reason to expect their future to be even more rewarding than their past. ■

letter :
 \$.75
200 letters / no.
 \$ 150
 x 12
 \$ 1800
 1/2 reduced
 \$ 225

\$ 110 per bed
 350 medical
\$ 460
 x 2 per day

costs





At a new national sales training center in Aurora, Colo., American Bell sales professionals gain additional expertise in developing and selling systems solutions to meet the needs of business and government customers. Additional training centers are located in South Plainfield, N.J., and Pine Mountain, Ga.

AT&T: A New Vision Takes Shape



AT&T will emerge from divestiture as a smaller company than it is now, but with a broader vision of its future.

By requiring AT&T to divest some \$100 billion in assets, the Consent Decree will substantially reduce AT&T's size and its share of the total communications market.

But by removing previously imposed restrictions on the Company, the Decree will significantly enlarge the range of AT&T's market opportunities.

The new AT&T will be free to develop its technologies to the fullest and to apply them in new markets.

Vital Strengths Preserved

In addition, the Consent Decree preserves some of the principal benefits of

Above: New AT&T headquarters (foreground) rises 660 feet above Madison Avenue in midtown Manhattan. Designed by noted architect Philip Johnson, the pink granite structure is topped by a distinctive open pediment. It is scheduled for completion in 1983.

the present integrated structure.

It retains unified management of the Bell System's nationwide long distance network. And it preserves the close relationship between Bell Laboratories and Western Electric.

Thus, organizational integration is retained in those areas most vital to technological innovation.

After divestiture, AT&T will have:

- An extensive, modern nationwide network that has long been considered a vital

national resource.

- The world's preeminent industrial research and development organization.

- A large and efficient manufacturing company.

- Subsidiaries, domestic and international, that will provide an array of high-quality, high-technology products and services for the home and office.

New Marketing Skills

The significant marketing expertise AT&T has developed in recent years will serve the Company well in coming years.

Indeed, in 1982, the Company strengthened its marketing capabilities in all its lines of business.

More than half the managers hired during the year were placed in marketing or sales positions.

Training and certification programs to ensure the professionalism of the sales force were stepped up. And to increase customer awareness and acceptance of the Company's products, advertising programs were expanded.

Also during 1982, the Company sought new avenues for marketing its products, including joint merchandising ventures in this country and abroad.

With innovative technology and creative marketing, AT&T will be well positioned to compete in the growing, global market for communications and information services.

Modes of Business

After divestiture, AT&T will operate in three modes: regulated, regulated but detariffed, and unregulated.

It will provide basic long distance services, regulated at both the state and federal levels. Customer premises equipment already in service will also be provided

under regulation until it is detariffed.

It will provide, through a fully separate subsidiary, new customer premises equipment and enhanced telecommunications services. The FCC will retain jurisdiction over these services but—under its Second Computer Inquiry decision—they will not be subject to traditional tariff regulation.

And under the Consent Decree, AT&T will be free to enter markets that are entirely unregulated, including data processing and other information services.

All of its lines of business—including those that are regulated—will be intensely competitive.

Line of Business Concept

To guide the Company in assessing its market options, AT&T has adopted a line of business concept for planning and financial management.

Each line of business will have its own mission, market strategies and profit goals—though operating within the framework of an overall corporate strategy.

Managing by lines of business is intended to improve AT&T's responsiveness to customer needs and to ensure effective allocation of financial and other resources.

Makeup of the New AT&T

After divestiture, AT&T's overall operations will be guided by a relatively small headquarters staff.

This headquarters group will be responsible for overall corporate strategy and for allocating resources among the affiliated organizations responsible for AT&T's various lines of business.

The principal organizations that will be part of the new AT&T are described in the following pages. ■



Top left: Strands of glass being inspected at lightwave cable assembly plant in Atlanta.

Top right: Bell Laboratories scientist placing high-speed Josephson junction circuit in an ultra-cold liquid helium bath. Faster and smaller than conventional silicon circuits, such devices could be the basic elements in "super computers" of the future.

Lower right: "Clean room" at Western Electric's Indianapolis plant, where components are produced for new electronic telephones such as the Genesis telesystem.

Opposite: Production of 256K random access memory devices at Allentown, Pa., plant.

Above: Specialists working at new Network Software Center in Lisle, Ill.





Partners in Innovation: Bell Laboratories, Western Electric

Fundamental to AT&T's continued leadership in Information Age technology is the close working relationship between Bell Laboratories and Western Electric.

The Consent Decree preserves this relationship and gives both organizations freedom to apply their resources in new ways and in new markets.

Bell Laboratories

Much of the technology of the Information Age is rooted in innovations conceived and developed over the years in Bell Laboratories.

As a result, Bell Laboratories has helped make AT&T—and, indeed, America—a world leader in information technology.

During 1982, it employed more than 25,000 people in 21 major locations, including 3,300 people with Ph.D. degrees and another 6,000 with master's degrees. Its total budget for the year was about \$2 billion.

To ensure that new technology is quickly translated into new products, about 30 percent of its technical staff is assigned to laboratory locations at seven Western Electric plants.

As does Western Electric, Bell Laboratories devotes significant resources to the creation of software – the programmed intelligence that is the key to the flexibility and versatility of Information Age technology. More than 40 percent of its technical people are involved with software development. And in January 1983, AT&T began commercially marketing a new version of the popular Bell Laboratories-designed UNIX* software system.

While Bell Laboratories as an institution will remain basically intact, some 4,000 of its employees have been reassigned to AT&T's American Bell subsidiary. Approximately 3,000 more will be transferred to the central services organization that will serve the regional companies.

New Integrated Devices

In 1982, Bell Laboratories strengthened its position as an industry leader in the development of advanced integrated circuits.

Its new 256K random access memory device—which Western Electric began producing in 1982—packs more than a half-million electronic components on a silicon chip no larger than a cornflake. This device can store more than a quarter-million bits of information and retrieve any of them in about a hundred-billionths of a second.

A new microprocessor, Bellmac†-32, entered production during the year. Smaller than a dime, it contains 150,000 transistors and has the power of a super-minicomputer at a fraction of the cost.

With its advanced computer-aided design capa-

*Trademark of Bell Laboratories

†Trademark of Western Electric Company

bilities, Bell Laboratories has vastly increased the speed at which it can design new devices and get them into production. During 1982, the Laboratories developed about 200 custom-designed integrated circuits.

Focus on Local Service

While innovations such as these have great potential for application in new markets, they also are revolutionizing local service technology.

The major portion of Bell Laboratories' resources will continue to be devoted to developing new and improved systems and services for local telephone companies and their customers.

These resources will help the telephone companies in two important ways: gaining new revenue through technologies that provide customers access to Information Age services, and reducing capital and expenses associated with providing traditional telecommunications services.

Commitment to Research

Most of Bell Laboratories' activities will be focused on specific products or lines of business and guided by the demands and opportunities of the marketplace.

However, the need to continue an extensive program of basic research – the source of new knowledge vital to tomorrow's information systems and services – remains a high priority. Accordingly, the management of AT&T has pledged to continue the support of fundamental research at Bell Laboratories.

This will continue to assure AT&T its place among America's most innovative business enterprises and America its place as a world leader in science and high technology.

Western Electric

No longer restricted in what it can manufacture, Western Electric will have significant opportunities to enhance its reputation as a leading supplier of high technology products and equipment.

Although challenged by many competitors—foreign and domestic—Western Electric has impressive strengths. It is well known for innovation, quality and reliability. It has modern, efficient production facilities and a network of distribution, installation and service centers.

With annual sales of about \$13 billion, Western Electric was ranked 22nd in the 1982 *Fortune* 500 list of industrial companies.

It has some 136,000 employees and more than a hundred major locations in 34 states.

Production Facilities

As part of a long term plan to improve plant utilization and cut costs, Western Electric is moving to reduce its manufacturing capacity. Its Kearny, N.J., Works will be phased out over several years, and operations will be reduced at other locations, including the Baltimore and Hawthorne Works.

In 1982, the company opened a Network Software Center in Lisle, Ill., and expanded its lightwave production facility in Atlanta.

It completed sophisticated new facilities for the production of very large scale integrated circuits at Allentown, Pa. This operation employs the most advanced manufacturing techniques, including computer-aided design and programmable robotic devices.

In other facilities, the company began production of its new 5ESS local digital switching system, which it expects to be installing at the

rate of one per day by the mid-1980's.

A Broader Sales Base

In addition to expanding its product line, Western Electric also moved to broaden its sales base. In 1982 it signed agreements with five nationwide equipment distributors who will market selected Western Electric products to Independent telephone companies.

While traditional telecommunications will continue to be its primary market, Western Electric's expertise in microelectronics, digital processing and software can be applied in other areas of the information marketplace as well.

For example, an advanced minicomputer produced by Western Electric for applications in the telecommunications network has been adapted for other uses within the Bell System companies. Known as the 3B20 Simplex, it can be used for computer-aided design, data processing or office automation functions such as word processing.

During 1982, Western Electric demonstrated its ability to compete in the broader information market by winning a key contract from the U. S. Navy to design and develop a new digital signal processor.

Also in competitive bidding, Western Electric was selected by AT&T to supply some 900 miles of fiber optic systems, using an optical system design capable initially of carrying 432 million bits of information per second on a single hair-thin glass fiber.

Expanded market opportunities are also in store for the Teletype Corporation, a Western Electric subsidiary which manufactures terminals for data systems and for connection to the telephone system. ■

A New National Long Distance Unit

After divestiture, AT&T's biggest line of business in terms of assets, revenues and earnings will be the interexchange business—providing long distance service between the telephone companies' service areas and between the U.S. and other countries.

A new organization is being formed that will assume responsibility for all the interexchange and international service operations of AT&T's Long Lines Department and the Bell operating companies.

It will be managed as a single, national unit and will have some 130,000 employees—including Long Lines employees and about 80,000 people from the Bell operating companies.

A Wide Range of Services

AT&T's interexchange unit will offer high-quality, innovative and widely available communications services to meet a variety of customer needs.

It will provide such long distance services as regular message telephone service, WATS and 800 Service – as well as innovative new network offerings such as Dial-It 900 Service.

It will provide a range of special services for business and government, such as large private networks, video and audio teleconferencing services, high-speed data links, satellite transmission and other digital services.



Above: Engineers from Bell Laboratories and Hughes Aircraft, with the antenna system for AT&T's new Telstar 3 domestic satellites.



Above: Network Operations Center in Bedminster, N.J., the principal control point for AT&T's nationwide network.



Left: Most of the Bell System's long distance operators will be assigned to the new interexchange organization.

It will also offer innovative transport services that will be used by other vendors in providing enhanced or value-added services.

A Nationwide Network

AT&T's nationwide network is capable of delivering information in virtually any form to virtually any place in the country or around the world.

Through advanced technology, the network is already far along in its transformation to an "intelligent" network, capable of providing services tailored to the unique needs of individual customers.

A major building block in the evolving network is the 4ESS digital switching system, which can handle more than a half-million long distance calls per hour. During 1982, the Bell System added 14 more of these giant switching systems, bringing the total in service to 84.

Most of these are connected by an advanced signaling system which uses high-speed data links to exchange information between the computer-controlled switching offices. Because this system can transmit, store and process detailed calling instructions, the network can be programmed to provide new

service options.

One example is the new automated Calling Card Service, permitting customers to dial their own credit card calls from Touch-Tone® telephones without operator assistance. By mid-1983, this service will be available to almost all Bell System customers.

The increased flexibility of the network also made it possible during 1982 to offer Expanded 800 service. This permits a business to have a single 800 number for both interstate and intrastate calls and to route incoming calls to various locations, depending on the time of day or where the calls originate.

Rapid Move to Digital

The Company is investing heavily in digital transmission systems.

During 1982, work was completed on a major portion of the world's largest lightwave, or fiber optics, communications system—a 776-mile project from Virginia to Massachusetts. The section linking Washington and New York was scheduled to go into service in February 1983 and the rest by January 1, 1984.

Another lightwave project under construction will link all metropolitan areas in California by 1985.

As noted earlier in con-

nection with Western Electric, about 900 additional miles of fiber optic systems are planned for interexchange routes. There also are plans to use lightwave cables in the late 1980's across the Atlantic and between the U.S. mainland and Hawaii.

New Service Options

The widespread use of digital technology is opening up a variety of new service opportunities.

A new high-speed digital transmission service announced in 1982 will soon be available throughout most of the country. Capable of handling 1.5 million bits of information per second, it can be used for a mixture of voice, data, facsimile and even video transmission.

Also introduced was a switched digital service, operating at twice that speed. Using a mixture of land-based and satellite transmission, it is being used initially to provide Picturephone® meeting service.

In addition to providing services to end users, the interexchange entity will offer digital transport services to other communications and information service vendors. One example is the nationwide packet switched service that was proposed in 1982. With packet switching, batches of data are gathered from multiple sources and transmitted economically as "packets" over a relatively small number of digital transmission channels.

Following an FCC order allowing AT&T to reenter the international data services market, the Company proposed offering a combined overseas voice and data transmission service. At the same time, the Company proposed rate reductions for its overseas private line service. ■

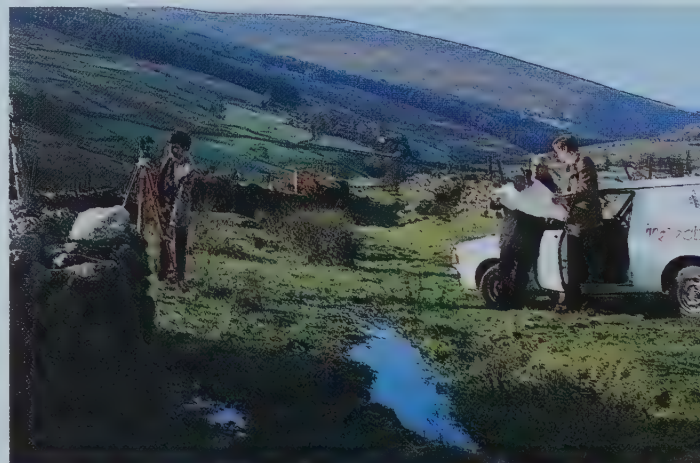


Above: American Bell consumer products will be marketed through a variety of retail channels, including Sears stores, like this one in Indianapolis.

Opposite: There's a new look and a new approach for systems technicians who serve AT&T's business customers. Like their counterparts in sales, nearly 5,000 systems technicians have been assigned to serve specific accounts. They are an integral part of the customer's communications team.



Right: Engineers from Telectron, Ltd., an Irish telecommunications firm in which AT&T International has a major interest, study sites in Ireland for a new digital microwave radio system that will use Bell System technology.



American Bell

AT&T formed a new subsidiary in 1982 and called it American Bell.

American Bell will be pursuing lines of business that are either detariffed or completely unregulated.

Headquartered in Morris County, N. J., it will be a nationwide operation, consisting of two divisions:

- *Advanced Information Systems (AIS)* to market information movement and management systems for business and government customers.

- *Consumer Products* to provide home and small business communications and information systems.

These divisions will be supported by Engineering, Design and Development organizations, with personnel drawn largely from Bell Laboratories and Western Electric.

Under capitalization plans approved by the FCC, about \$500 million in assets will be transferred to American Bell by July 1, 1984. A total of \$4.7 billion in capital will be needed by the subsidiary through 1985.

The FCC's Second Computer Inquiry decision requires American Bell to operate independently from the regulated parts of AT&T. It must provide its own marketing, sales and billing. It may not own transmission facilities but may obtain them under tariff for its enhanced services.

Until 1984, installation and maintenance of American Bell's business products will continue to be provided under contract by the Bell operating companies and Western Electric's field service organization. After that, American Bell will provide its own installation and maintenance services.

American Bell will design and develop its own products, and can arrange for Western Electric to manufacture them. It can also market equipment that is manufactured by other companies.

Serving Business

To meet the information management needs of business and government, the Advanced Information Systems (AIS) division will stress a systems approach offering state-of-the-art products and services to solve major problems facing its customers.

AIS will market Net 1000, AT&T's first enhanced digital service. Using a shared data communications network, Net 1000 has information storage and processing capabilities which will permit incompatible terminals and computers to communicate with each other.

This division of American Bell will also market a complete range of customer premises equipment, including Dimension PBX, a versatile, programmable system that can be equipped with numerous optional features through additions in system software. Several major enhancements were made in 1982, including message center and electronic directory capabilities, improved data switching and energy management functions as well as voice storage and forwarding capabilities.

On January 1, 1983, AIS began offering business customers uniform pricing, terms and conditions. In addition, selected products were made available on a purchase basis as well as through traditional leasing arrangements.

AIS will continue to provide a strong nationwide distribution system. Large customers will be supported through 121 branch offices equipped to serve industry-specific customer needs. Smaller customers will be supported by 29 specialized branches with personnel dedicated to understanding and serving the needs of small businesses.

To supplement its regionally-deployed business sales force, AIS opened its first national sales center early in 1983 in Nashville, Tenn. When fully staffed, it will have 400 specialists trained to help business customers who call about American Bell information management services.

Most important, the high standard of service business customers have come to rely on will continue. This tradition provides our most important competitive edge.

Selling to Consumers

American Bell's Consumer Products division will mar-

ket a wide array of communications equipment for residence and small business customers—from basic telephones to sophisticated new terminal devices with information processing capabilities and interactive home information systems.

American Bell's well-advertised consumer products are offered for sale only and are being marketed through a variety of sales channels, including its own retail outlets as well as those of other firms.

Some 460 of the approximately 1500 Bell PhoneCenters around the country have been assigned to American Bell. Most of the remainder have become service centers operated by the Bell telephone companies.

In November, Bell PhoneCenter dealerships were opened in five Sears, Roebuck stores in Indianapolis. And in 1983, American Bell PhoneCenters, staffed by specially trained Sears employees, are expected to open in Sears retail stores nationwide. ■

AT&T International

Since consolidating its international marketing operations in a single subsidiary in 1980, AT&T has significantly enlarged its presence in major foreign markets.

With the opening of four new sales offices in 1982, AT&T International is now represented in 15 countries.

The marketplace AT&T International seeks to serve is a global one. Toward that end, an extensive research and development program has been undertaken to create a line of products geared to the technical standards of other countries.

In 1982, AT&T Interna-

tional reached an agreement in principle with the highly-respected Netherlands firm of N. V. Philips to form a joint venture company to market and service switching and transmission equipment outside the U.S.

And the company acquired a 45 percent interest in Telectron, Ltd., a manufacturing firm in Ireland.

In major sales in 1982, the company received a \$377 million contract to expand Saudi Arabia's existing microwave network and, through Telectron, Ltd., a \$22 million contract for a digital microwave radio system in Ireland. ■

Looking Ahead

In the year—and years—ahead, this enterprise and America's telecommunications industry will be undergoing unprecedented changes.

These changes reflect (1) advances in telecommunications and information technologies; (2) federal regulatory decisions to increase competition and lessen regulation, and (3) the 1982 Consent Decree and its restructuring of the Bell System.

What once was a regulated monopoly is becoming one of the most competitive of businesses. Competition in both the equipment and long distance markets is already expanding rapidly.

And what once was a fully integrated Bell System will be broken up.

Affected by Change

Such changes obviously affect AT&T share owners, even beyond the division of their investment as a result of divestiture. With new opportunities for the greater rewards that beckon in the future goes a measure of greater risk.

Bell System customers also will be affected, as changes are made in the way they arrange to get telephones and telephone service. For example, most of these transactions are now handled directly at our PhoneCenters rather than over the telephone.

Still more changes were introduced at the start of 1983 as we moved to comply with new FCC rules requiring that we offer newly manufactured telephones through a fully separate subsidiary instead of through

the telephone companies, as in the past.

Also, in a departure from traditional Bell System practice, some Bell companies in 1982 began offering customers an option to purchase single-line telephone equipment, including telephones already installed and in use.

Other Bell companies are seeking state regulatory approval to give customers the choice of either buying their single-line equipment or continuing to use the monthly lease plan. Limited warranties are being provided with equipment that is sold.

Our goal is to make the transition as smooth as possible. At the same time, we want customers to understand the changes and why they are occurring. Toward that end, the Bell companies are conducting a public information program called "Let's Talk." Customers wanting information can call the following toll free number: 1 800 555-5000. The program is being publicized through advertisements, bill inserts and other ways.

Issues Needing Attention

The transition to a more competitive industry confronts federal and state regulators—as well as telecommunications companies—with issues that require attention and resolution.

It gives new urgency to the need to relate telephone prices more directly to the cost of serving individual customers.

It requires regulatory recognition of the telephone companies' need to recover their capital investment at a faster, more realistic pace than in the past—and to reflect it in their rates.

And, finally, it should encourage regulators to remove those aspects of regulation that apply to AT&T but not to its competitors,

and to apply any remaining regulation equally to all.

Shaping National Policy

The responsibility for defining national telecommunications policy rests, as it always has, with Congress.

Several versions of telecommunications legislation have been considered in recent years, but all have fallen short of attracting a consensus in Congress.

In 1982, AT&T urged its share owners and Bell System employees to write to their Representatives in opposition to a bill passed by the House telecommunications subcommittee. The bill, we said, was both ill-conceived and ill-timed. In response, there was an exceptional outpouring of letters to Congress.

The bill was withdrawn before it came to a vote in the House Energy and Commerce Committee.

The attention Congress has given to telecommunications matters over the years has made clear the general policy direction it favors: that telephone service continue to be available to all at affordable prices, but that its provision be governed more by competition and less by regulation.

Keeping America First

Telecommunications and information services represent a major element of the nation's economic hopes for the future. Indeed, to a large extent, they are the essence of the Information Age.

AT&T and its associated companies, as they are structured now and as they will be reorganized in the coming year, will be leaders in providing these services.

Thus, they will play key roles in keeping America in the vanguard of telecommunications and information technologies. ■

Management's Discussion and Analysis of Financial Condition and Results of Operations

Although AT&T's volume of business increased during 1982, the rate of growth was considerably less than in recent years—in large part because of the lingering national recession.

Growth was particularly slow in the last half of the year, as the recession deepened and unemployment rose to record levels.

Total revenues (including other income) for 1982 increased 11.3 percent, compared with 14.6 percent in 1981 and 11.6 percent in 1980. Total expenses (including operating taxes and interest) increased 12.5 percent in 1982, compared with 14.6 percent in 1981 and 12.5 percent in 1980.

Net income in 1982 rose 6.7 percent, compared with a 14.3 percent increase in 1981 and a 5.5 percent rise in 1980. The rate of return on average total capital for 1982 was 10.0 percent, compared with 10.3 percent in 1981 and 9.8 percent in 1980. Return to average common equity for 1982 was 12.2 percent, compared with 12.8 percent in 1981 and 12.5 percent in 1980.

Revenues

Local and toll service revenues increased 11.7 percent in 1982, 14.9 percent in 1981 and 11.3 percent in 1980. The 1982 revenue growth was due in part to business growth and in part to rate increases.

The overall volume of business (revenues adjusted to exclude the effects of rate increases) rose by 4.4 percent during 1982, compared with

8.5 percent in 1981 and 8.1 percent in 1980.

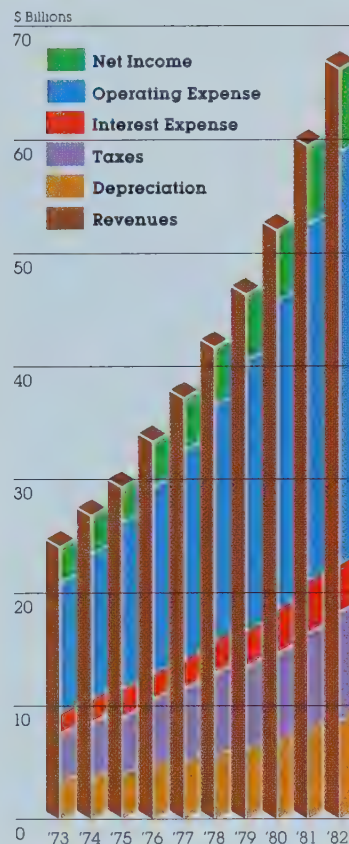
The rate of growth varied by service category. Growth in network access lines and domestic toll messages slackened during 1982, while Wide Area Telecommunications Service (WATS) and international toll messages continued their traditional strong growth.

Due largely to the depressed housing market, the Bell operating telephone companies added only 1.1 million network access lines during 1982, compared with 2.1 million in 1981 and 2.5 million in 1980.

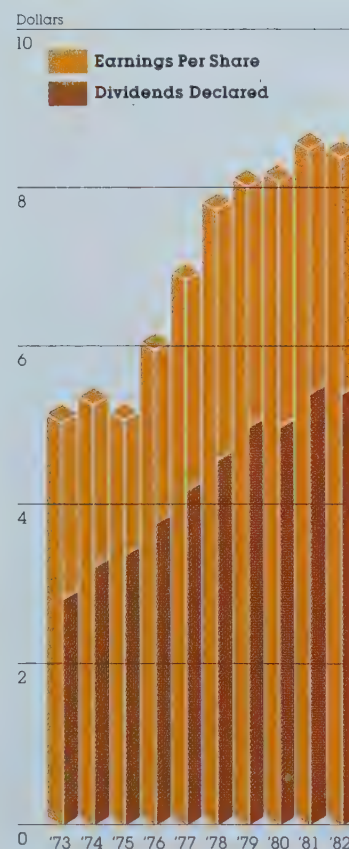
Total toll messages increased by 3.4 percent in 1982, compared with 6.8 percent in 1981 and 7.8 percent in 1980. WATS messages were up in 1982 by 17 percent, compared with 16 percent in 1981 and 14.8 percent in 1980.

Revenues from international and overseas calling (included in toll revenues) remained constant at \$1.8 billion in 1982, 1981 and 1980 as a result of rate reductions which went into effect in 1981 and 1982. Also during 1982, AT&T International more than doubled its sales abroad to \$403 million.

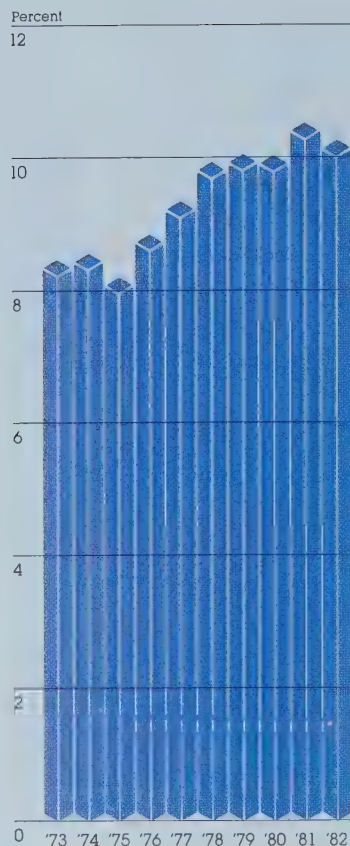
Higher intrastate rates contributed \$3.5 billion to the increase in revenues in 1982, compared with \$2.1 billion in 1981 and \$1.2 billion in 1980. Interstate rate changes contributed another \$557 million in revenues during 1982, \$729 million in 1981 and \$327 million in 1980. Many of these rate increases reflected the increased revenue require-



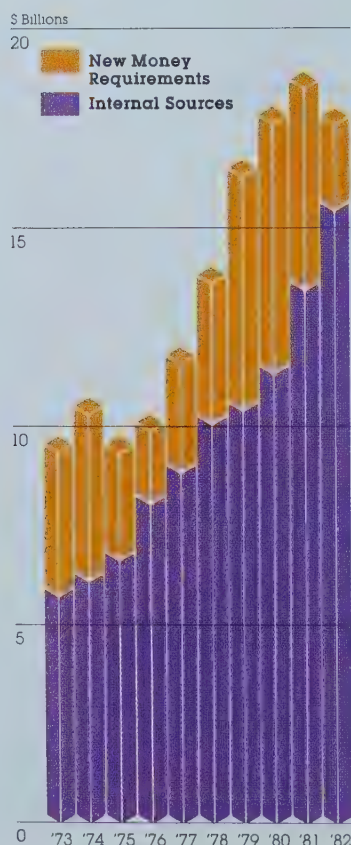
Composite financial results: Net income for 1982 was \$7.3 billion, an increase of 6.7 percent over 1981. Total revenues in 1982 amounted to \$65.8 billion, an increase of 11.3 percent over 1981. Total expenses for 1982 were \$58.8 billion, up 12.5 percent from 1981. Of these, operating costs were \$36.3 billion, interest costs \$3.9 billion, taxes \$9.8 billion and depreciation expenses \$8.7 billion.



Earnings per share: During 1982, the average number of shares outstanding increased by 61 million. This increase in shares, coupled with the reduced growth in demand and a one-time write-off occasioned by the downsizing of Western Electric's manufacturing capacity, are reflected in earnings per share of \$8.40 in 1982, compared with \$8.47 for 1981—a decrease of .07 percent. The dividend rate remained at \$5.40.



Return on capital: Return on average total capital for 1982 was 10.0 percent, compared with 10.3 percent in 1981. In part, this reflected slower revenue growth, as well as increased expenses associated with our accelerated capital recovery programs in cases where there was a lag in rate authorizations that take these capital recovery needs into account.



Financing: Capital requirements for 1982 totaled \$17.3 billion, down from \$18.6 billion in 1981. Of this, about 87 percent was obtained from internal sources. The Company raised \$4.8 billion in external capital during 1982, including \$4.1 billion through new equity issues.

ments associated with accelerated capital recovery measures.

Western Electric

Western Electric's net income (included in "other income") declined 52.7 percent in 1982, compared with increases of 2.6 percent in 1981 and 9 percent in 1980.

This earnings decline was due largely to a decision to phase out or reduce production at certain Western Electric manufacturing facilities. This is part of a long-term plan for reducing manufacturing capacity in order to improve plant utilization and reduce costs. This decision has a one-time effect on earnings. In 1982, it increased expenses by \$625 million, which reduced net income by \$317.6 million.

Also a factor in the earnings decline was the Bell System operating companies' reduced demand for products and services, reflecting the impact of the recession. As a result, Western Electric's sales for 1982 decreased 3.3 percent, compared with increases of 8.1 percent in 1981 and 9.7 percent in 1980.

Expenses

AT&T and its consolidated companies worked vig-

orously to control expenses during 1982. However, inflation continued to affect such expenses (see also Supplementary Data on Page 44). This was reflected in increases in salary and wage-related costs, pensions and other employee benefits, and in the cost of materials and services.

Also contributing to the increase in operating expenses were various capital recovery programs, including changes in depreciation rates and practices and the expensing of station connection costs.

Taxes and Interest

Total income taxes on operations increased 19.7 percent in 1982 and 15.0 percent in 1981, because of higher income before such taxes. Results for 1982 include the effect of the change in accounting for certain deferred income taxes which increased Income Applicable to Common Shares by \$352.7 million (\$.42 per share). See also Note (B).

As a result of legislation enacted by Congress to clarify Pacific Telephone's eligibility for certain tax benefits—see Note (E) to Financial Statements—interest expense decreased 9.9 percent in 1982, compared with in-

Yearly Increases in Operating Expenses

(DOLLARS IN MILLIONS)	1982 over 1981	1981 over 1980	1980 over 1979
Wages and salaries, including cost-of-living adjustments	\$2,624	\$2,358	\$1,678
Provision for pensions and other employee benefits	632	312	379
Depreciation due to:			
—Revised rates and practices	385	887	324
—Expensing station connection costs	(184)	(626)	—
—Increased plant investment	633	599	585
Maintenance due to expensing station connection costs	939	584	—
Materials, supplies and other payments	650	927	1,102
Total increase in operating expenses	\$5,679	\$5,041	\$4,068

creases of 15.8 percent in 1981 and 22.2 percent in 1980. The average interest cost on long and intermediate term debt issued in 1982 was 13.7 percent, compared with 15.5 percent in 1981 and 12.5 percent in 1980. The embedded cost of debt rose to 8.7 percent at the end of 1982 from 8.6 percent in 1981 and 8 percent in 1980.

Financing

The Bell System obtained about 87 percent of its capi-

tal needs through internal sources in 1982, 73 percent in 1981 and 65 percent in 1980.

The Company's external long term financing in 1982 was \$4.8 billion, of which \$4.1 billion was obtained through the issue of new equity.

Roughly two-thirds of the new equity, or some \$2.5 billion, was raised through the Dividend Reinvestment and Stock Purchase Plan and employee stock ownership, savings and investment plans. An additional \$1.6 bil-

lion was raised from the issuance of a total of 27.7 million common shares in three separate underwritten offerings. In 1981 and 1980, new equity raised amounted to \$3.2 billion and \$1.9 billion, respectively. Average common shares outstanding increased 61 million in 1982, compared with increases of 65 million in 1981 and 37 million in 1980.

AT&T and its consolidated subsidiaries also raised some \$675 million through long and inter-

mediate term debt issues in 1982. In 1981 and 1980, similar debt issues totaled \$3.5 billion and \$4.7 billion, respectively.

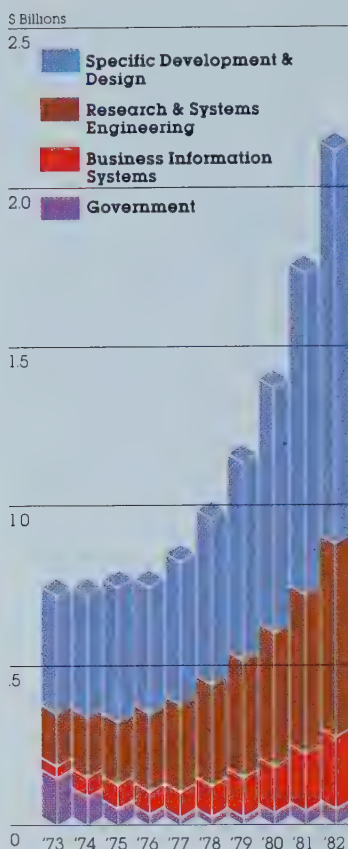
To further enhance the Company's ability to raise needed capital, AT&T's common stock was listed on the stock exchange in London. Subsequently, the Company sold \$400 million of the \$675 million of long and intermediate term debt mentioned above in the Eurobond market through a newly formed finance sub-

Results in Brief: Selected Financial and Operating Data

DOLLARS IN MILLIONS (000,000) except per share amounts		1982	1981*	1980*	1979	1978
Revenues	Local service	\$ 28,986	\$ 25,553	\$ 22,449	\$ 20,208	\$ 18,685
	Toll service	33,257	30,189	26,051	23,371	20,770
	Other (including other income)	3,514	3,339	3,049	2,604	2,289
		65,757	59,081	51,549	46,183	41,744
Expenses	Operating	45,025	39,346	34,305	30,236	26,527
	Income taxes on operations	4,931	4,119	3,581	3,607	3,826
	Other operating taxes	4,879	4,430	3,928	3,602	3,439
	Interest	3,930	4,363	3,768	3,083	2,690
		58,765	52,258	45,582	40,528	36,482
Income before cumulative effect of a change in accounting principle		6,992	6,823	5,967	5,655	5,262
Prior years cumulative effect of a change in accounting for deferred income taxes		287	—	—	—	—
Net Income		7,279	6,823	5,967	5,655	5,262
Preferred dividend requirements		142	146	150	156	164
Income applicable to common shares		\$ 7,137	\$ 6,677	\$ 5,817	\$ 5,499	\$ 5,098
Earnings per common share		\$ 8.40	\$ 8.47	\$ 8.04	\$ 8.01	\$ 7.73
Based on average shares outstanding (in thousands)		849,550	788,178	723,516	686,109	659,843
Pro forma amounts assuming the change in accounting for deferred income taxes had been applied retroactively:						
Income applicable to common shares		\$ 6,850	\$ 6,726	\$ 5,863	\$ 5,532	\$ 5,134
Earnings per common share		\$ 8.06	\$ 8.53	\$ 8.10	\$ 8.06	\$ 7.78
Total assets		\$148,186	\$137,750	\$125,553	\$113,444	\$103,025
Long and intermediate term debt		\$ 44,105	\$ 43,877	\$ 41,255	\$ 37,168	\$ 34,203
Preferred shares subject to mandatory redemption		\$ 1,550	\$ 1,563	\$ 1,575	\$ 1,588	\$ 1,600
Convertible preferred shares subject to redemption		\$ 301	\$ 336	\$ 385	\$ 433	\$ 501
Dividends declared per common share		\$ 5.40	\$ 5.40	\$ 5.00	\$ 5.00	\$ 4.60
Ratio of earnings to fixed charges†		3.64	3.26	3.34	3.76	4.10
Toll messages for the year ended December 31 (000,000)		19,275	18,643	17,457	16,193	14,639
WATS messages for the year ended December 31 (000,000)		6,615	5,655	4,874	4,244	3,631
Charges for toll messages and WATS messages for the year ended December 31, 1982 account for about 36% and 9%, respectively, of total billed operating revenues.						
Network access lines in service at December 31 (000,000)		85	84	82	79	76
Recurring charges for network access lines in service for the year ended December 31, 1982 account for about 24% of total billed operating revenues.						

*Restated, See Note (5).

†For the purpose of this ratio for the enterprise as a whole: (i) earnings have been calculated by adding total taxes on income, the income before income taxes of Western Electric, ownership interest of others in the net income of certain consolidated subsidiaries, dividends received on investments in less-than-fifty-percent-owned companies and fixed charges to income before cumulative effect of a change in accounting principle, and by deducting therefrom the Company's share in the income of companies accounted for on an equity basis; (ii) fixed charges comprise total interest expense, dividends on preferred shares of a consolidated subsidiary held by others and such portion of rentals representative of the interest factor.



Research and development: Reflecting the Company's continuing commitment to technological innovation, R&D expenditures for 1982 totaled \$2.1 billion, an increase of 23 percent over 1981.

Market and Dividend Data: The principal market for trading in AT&T common stock is the New York Stock Exchange. The common stock is also listed in the United States on the Philadelphia, Boston, Midwest and Pacific exchanges. As of December 31, 1982, there were 3,148,072 holders of record of this common stock. Market data as obtained from the Composite Tape* and dividend data for the last two fiscal years are listed below. The preferred shares rank prior to the common shares as to dividends. (See Note (J) to Financial Statements.)

Calendar Quarter		Market Price		Dividend Declared
		High	Low	
1981	1st	\$53½	\$47½	\$1.35
	2nd	58¾	51½	1.35
	3rd	60½	53¾	1.35
	4th	61½	57½	1.35
1982	1st	\$60¾	\$54¾	\$1.35
	2nd	56¾	50	1.35
	3rd	58½	49¾	1.35
	4th	64½	56¼	1.35

*Encompasses trading on the principal U.S. stock exchanges as well as off-board trading.

sidiary. See also Note (M) to Financial Statements.

Improved Debt Ratio

The Bell System's debt ratio (debt as a percent of total debt and equity) declined in 1982 to 42.3 percent at year's end. It was 45.3 percent at year-end 1981 and 46.7 percent at year-end 1980.

If preferred shares subject to mandatory redemption were included with debt, the ratio would be 43.7 percent for 1982, 46.8 percent for 1981 and 48.3 percent for 1980.

Construction Costs

Reflecting the reduced demand for new services, 1982 construction expenditures of the Bell System operating companies were \$16.8 billion, compared with \$18.1 billion in 1981 and \$17.3 billion in 1980.

Expensing of certain station connection costs reduced the Company's construction requirements by about \$1.6 billion in 1982 and \$600 million in 1981.

To meet the demand for communications services and to improve existing services, the operating companies' 1983 construction expenditures are expected to total about \$15.2 billion and, in addition, the construction expenditures of American Bell Inc. (the subsidiary recently formed to provide customer premises equipment and enhanced services) and other consolidated subsidiaries are expected to total about \$1.5 billion.

The Bell System has been able to obtain the funds needed to finance its construction program and believes that it will continue to be able to do so.

Divestiture

It is not possible to estimate

the effect on the operating telephone companies of the Modification of Final Judgment—see Note (R) to Financial Statements—between the Company and the Department of Justice until (a) the plan of divestiture filed by the Company is approved by the Department of Justice and the Court and (b) various studies are completed. The Company has stated that it will take the necessary measures to maintain the sound financial condition of the operating telephone companies during the transition period prior to divestiture and to see that these companies have a sound financial footing upon divestiture.

Future Operations

Results of operations in 1983 will be subject to the timing and strength of the expected economic recovery. In addition, the Company anticipates that American Bell Inc. will ultimately be profitable; however, some operating deficits are expected in its early years of start-up operations. Also affecting results will be (1) increased expenses associated with accelerated capital recovery programs when there is a lag in rate authorizations which take these capital recovery costs into account, (2) increased expenses related to preparations for divestiture which the Company will attempt to offset, and (3) reduced rate of growth in business volumes resulting from competition in both the equipment and interstate long distance markets. ■

See Notes (E), (Q), (R) and (S) to Financial Statements pertaining to Rate and Related Matters, MCI and Litton Antitrust Litigation, Department of Justice Antitrust Action, and Regulatory Actions, respectively.

Consolidated Financial Statements

Report of Management

The financial statements on pages 30 through 44, which consolidate the accounts of American Telephone and Telegraph Company and its subsidiaries, have been prepared in conformity with generally accepted accounting principles.

The integrity and objectivity of data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management as is all other information included in the Annual Report unless indicated otherwise. To this end, management maintains a system of internal accounting controls which, on an ongoing basis, is reviewed and evaluated. Our internal auditors monitor compliance with it in connection with the annual plan of internal audits. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived. Management believes that the Company's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and are recorded properly to maintain accountability for assets and to permit the preparation of financial statements in conformity with generally accepted accounting principles. Management also believes that this system provides reasonable assurance that access to assets is permitted only in accordance with management's authorizations, that the recorded accountability for assets is compared with the existing assets at reasonable intervals, and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility, and by communications programs aimed at assuring that its policies, standards, and managerial authorities are understood throughout the organization.

These financial statements have been examined by Coopers & Lybrand, independent Certified Public Accountants. The other auditors referred to in their report are Arthur Young & Company, auditors of Western Electric Company, Incorporated and Southwestern Bell Telephone Company, and Arthur Andersen & Co., auditors of Illinois Bell Telephone Company.

The Audit Committee of the Board of Directors, which is composed of Directors who are not employees, meets periodically with management, the internal auditors, and the independent auditors to review the manner in which they are performing their responsibilities and to discuss auditing, internal accounting controls, and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have free access to the Audit Committee at any time.

R. N. Flint,
Vice President and Comptroller

Report of Independent Certified Public Accountants

To the Share Owners of American Telephone and Telegraph Company:

We have examined the balance sheets of American Telephone and Telegraph Company and its subsidiaries as of December 31, 1982 and 1981, and the related statements of income and reinvested earnings and sources of funds supporting construction activity for the years ended December 31, 1982, 1981 and 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of two telephone subsidiaries and of Western Electric Company, Incorporated, the Company's principal unconsolidated subsidiary, were examined by other auditors; such statements reflect net income constituting approximately 22%, 27% and 28% of consolidated net income for 1982, 1981 and 1980, respectively. The reports of the other auditors have been furnished to us and our opinion expressed herein, insofar as it relates to amounts included for subsidiaries examined by them, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of other auditors, the financial statements referred to above present fairly the financial position of American Telephone and Telegraph Company and its subsidiaries at December 31, 1982 and 1981, and the results of their operations and sources of funds supporting their construction activity for the years ended December 31, 1982, 1981 and 1980, in conformity with generally accepted accounting principles which, except for the change in 1982, with which we concur, in accounting for deferred income taxes as described in Note (B) to Financial Statements, have been applied on a consistent basis.

Coopers & Lybrand
1251 Avenue of the Americas, New York, N.Y.
February 8, 1983

Statements of Income and Reinvested Earnings

American Telephone and Telegraph Company and its Subsidiaries

DOLLARS IN MILLIONS (except per share amounts)

	Year 1982	Year 1981*	Year 1980*
OPERATING REVENUES			
Local service			
Service and equipment charges	\$24,633.7	\$21,727.8	\$18,972.4
Message charges	2,618.7	2,324.8	2,184.7
Public telephones	946.4	862.3	800.4
Private lines and other services	787.5	638.2	491.9
Toll service			
Message charges	23,356.7	22,232.7	20,083.3
WATS	5,565.0	4,487.7	3,724.3
Private lines and other services	4,334.7	3,468.1	2,243.6
Directory advertising and miscellaneous	3,623.7	2,913.1	2,651.6
Provision for uncollectibles	(773.4)	(589.1)	(494.0)
Total operating revenues	65,093.0	58,065.6	50,658.2
OPERATING EXPENSES			
Maintenance	14,986.2	12,987.7	10,916.5
Depreciation	8,734.5	7,900.3	7,040.4
Network and operator services	3,910.2	3,580.6	3,253.3
Marketing and customer services	6,126.6	5,192.0	4,319.5
Financial operations	1,882.0	1,671.1	1,547.4
Directory	1,218.3	1,048.9	917.5
Research and systems engineering	610.6	507.2	418.8
Provision for pensions and other employee benefits (C)	5,405.4	4,773.5	4,461.2
Other operating expenses	2,151.5	1,684.3	1,430.2
Total operating expenses	45,025.3	39,345.6	34,304.8
Net operating revenues	20,067.7	18,720.0	16,353.4
OPERATING TAXES			
Federal income taxes (B)	4,411.0	3,686.0	3,241.4
State and local income taxes (B)	519.3	433.1	339.0
Property taxes	1,949.4	1,845.6	1,722.5
Gross receipts, payroll-related, and other taxes (P)	2,929.7	2,584.8	2,206.1
Total operating taxes	9,809.4	8,549.5	7,509.0
Operating income	10,258.3	10,170.5	8,844.4
OTHER INCOME			
Western Electric Company net income (G)	336.7	711.3	693.2
Interest charged construction	317.6	287.5	271.1
Miscellaneous income and deductions-net (B)(D)	9.4	16.4	(72.8)
Total other income	663.7	1,015.2	891.5
Income before interest expense (carried forward)	\$10,922.0	\$11,185.7	\$ 9,735.9

*Restated, see Note (S).

The accompanying notes are an integral part of the financial statements.

DOLLARS IN MILLIONS (except per share amounts)	Year 1982	Year 1981*	Year 1980*
Income before interest expense (brought forward)	\$10,922.0	\$11,185.7	\$ 9,735.9
INTEREST EXPENSE (P)	3,930.0	4,362.8	3,768.1
Income before cumulative effect of a change in accounting principle	6,992.0	6,822.9	5,967.8
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes (B)	286.8	—	—
NET INCOME	7,278.8	6,822.9	5,967.8
Preferred dividend requirements	141.9	145.7	150.7
INCOME APPLICABLE TO COMMON SHARES	\$ 7,136.9	\$ 6,677.2	\$ 5,817.1
EARNINGS PER COMMON SHARE AMOUNTS based on weighted average number of shares outstanding of 849,550,000, 788,178,000 and 723,516,000 in years 1982, 1981 and 1980, respectively:			
Before cumulative effect of a change in accounting principle	\$ 8.06	\$ 8.47	\$ 8.04
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes (B)	.34	—	—
Earnings per Common Share	\$ 8.40	\$ 8.47	\$ 8.04
REINVESTED EARNINGS			
At beginning of year	\$26,364.9	\$23,946.4	\$21,751.3
Add net income	7,278.8	6,822.9	5,967.8
	33,643.7	30,769.3	27,719.1
Deduct dividends declared:			
Convertible preferred shares subject to redemption:			
\$4 Cumulative convertible preferred shares	25.2	28.0	32.0
Preferred shares subject to mandatory redemption:			
\$3.64 Preferred shares	36.4	36.4	36.4
\$3.74 Preferred shares	37.4	37.4	37.4
\$77.50 Preferred shares	42.6	43.6	44.6
Common: 1982, \$5.40 per share; 1981, \$5.40 per share; and 1980, \$5.00 per share	4,601.0	4,256.6	3,619.5
Miscellaneous—net	12.6	2.4	2.8
	4,755.2	4,404.4	3,772.7
At end of year	\$28,888.5	\$26,364.9	\$23,946.4

Balance Sheets

American Telephone and Telegraph Company and its Subsidiaries

DOLLARS IN MILLIONS (except per share amounts)		at December 31	
		1982	1981*
ASSETS			
TELEPHONE PLANT at cost			
In service		\$152,725.6	\$141,419.2
Under construction		5,229.6	5,094.2
Held for future use		91.0	51.0
		158,046.2	146,564.4
Less accumulated depreciation		29,982.8	26,580.9
		128,063.4	119,983.5
INVESTMENTS			
At equity (G)			
Western Electric Company, Incorporated		4,757.1	4,991.2
Other		661.9	563.7
At cost		307.1	322.0
		5,726.1	5,876.9
CURRENT ASSETS			
Cash		137.5	282.9
Temporary cash investments at cost (approximates market value)		2,969.9	1,775.5
		3,107.4	2,058.4
Less drafts outstanding (H)		653.7	795.8
		2,453.7	1,262.6
Receivables			
Customers and agents less allowance for uncollectibles:			
1982, \$302.0; 1981, \$238.2		7,764.5	7,179.9
Other		815.0	651.3
Material and supplies		1,178.8	1,171.6
Prepaid expenses (principally taxes)		245.8	226.6
		12,457.8	10,492.0
DEFERRED CHARGES			
		1,938.2	1,397.1
TOTAL ASSETS		\$148,185.5	\$137,749.5

*Restated, see Note (S).

The accompanying notes are an integral part of the financial statements.

DOLLARS IN MILLIONS (except per share amounts)

at December 31
1982 1981*

INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS

COMMON SHARE OWNERS' EQUITY

Common shares—\$16 $\frac{2}{3}$ par value (I)	\$ 14,940.4	\$ 13,585.1
Authorized shares: 1982—1,200,000,000; 1981—900,000,000		
Outstanding shares: 1982—896,425,000; 1981—815,108,000		
Proceeds in excess of par value	18,084.1	14,929.1
Reinvested earnings—see page 31	28,888.5	26,364.9
	61,913.0	54,879.1

CONVERTIBLE PREFERRED SHARES SUBJECT TO REDEMPTION (J)

\$4 cumulative convertible preferred (includes proceeds in excess of stated value)	301.4	335.8
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PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION (J)	1,550.0	1,562.5
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OWNERSHIP INTEREST OF OTHERS IN CONSOLIDATED SUBSIDIARIES

Share owners' equity (I)	—	415.8
Preferred shares subject to mandatory redemption (K)	535.8	553.0
	535.8	968.8

LONG AND INTERMEDIATE TERM DEBT (L)	44,105.0	43,876.9
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CURRENT LIABILITIES

Accounts payable		
To unconsolidated subsidiaries	1,339.7	1,330.2
Payrolls	695.5	632.6
Others	2,928.5	2,183.2
Debt maturing within one year (M)	3,045.0	4,019.1
Taxes accrued	1,669.3	3,195.2
Income taxes deferred for one year (B)	263.7	149.9
Advance billing and customers' deposits	1,668.0	1,476.7
Dividends payable	1,223.3	1,145.7
Interest accrued	1,126.5	1,094.1
	13,959.5	15,226.7

DEFERRED CREDITS

Accumulated deferred income taxes (B)(E)	17,804.4	14,037.3
Unamortized investment tax credits (E)	7,590.3	6,543.7
Other	426.1	318.7
	25,820.8	20,899.7

LEASE COMMITMENTS (N)

TOTAL INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS	\$148,185.5	\$137,749.5
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Statements of Sources of Funds Supporting Construction Activity

American Telephone and Telegraph Company and its Subsidiaries

DOLLARS IN MILLIONS (except per share amounts)

	Year 1982	Year 1981*	Year 1980*
FUNDS FROM OPERATIONS			
Net Income	\$ 7,278.8	\$ 6,822.9	\$ 5,967.8
Add expenses not requiring funds currently			
Depreciation	8,734.5	7,900.3	7,040.4
Deferred income taxes—net	4,167.7	1,851.4	1,651.1
Investment tax credits—net	1,046.6	969.7	961.4
Deduct income not providing funds currently			
Interest charged construction	317.6	287.5	271.1
Prior years cumulative effect of the change in accounting for deferred income taxes	286.8	—	—
Share of equity-basis companies' income in excess of dividends	(223.1)	197.5	236.7
Total funds from operations	20,846.3	17,059.3	15,112.9
Less dividends	4,742.6	4,402.0	3,769.9
	16,103.7	12,657.3	11,343.0
FUNDS FROM EXTERNAL FINANCING			
Issuance of shares, net of redemptions	4,463.4	3,168.7	2,591.7
Issuance of long and intermediate term debt	713.4	3,460.2	4,728.9
Increase (decrease) in short term borrowings—net	(674.1)	(513.0)	83.9
	4,502.7	6,115.9	7,404.5
Less retirement of long and intermediate term debt	785.0	595.0	415.0
	3,717.7	5,520.9	6,989.5
CHANGES IN WORKING CAPITAL[†] (excluding debt maturing within one year and income taxes deferred for one year)			
Cash and temporary cash investments	(1,191.1)	(255.6)	(144.4)
Receivables	(748.3)	(1,047.8)	(950.7)
Material and supplies	(7.2)	(153.7)	(111.4)
Prepaid expenses	(19.2)	(20.9)	(27.8)
Accounts payable	817.7	419.8	224.8
Taxes accrued	(1,525.9)	557.5	275.8
Advance billing and customers' deposits	191.3	197.9	190.5
Dividends payable	77.6	161.7	48.1
Interest accrued	32.4	99.5	144.5
	(2,372.7)	(41.6)	(350.6)
OTHER CHANGES[†]			
Investments	(72.3)	(420.0)	(334.5)
Deferred charges	(541.1)	(145.3)	(133.7)
Ownership interest of others in consolidated subsidiaries	(433.0)	22.0	(616.3)
Other—net	77.6	216.9	132.4
	(968.8)	(326.4)	(952.1)
FUNDS SUPPORTING CONSTRUCTION ACTIVITY	16,479.9	17,810.2	17,029.8
Add interest charged construction	317.6	287.5	271.1
TOTAL CONSTRUCTION FOR COMMUNICATIONS SERVICES	\$16,797.5	\$18,097.7	\$17,300.9

*Restated, see Note (S).

[†]() Denotes a change which results in a decrease in funds supporting construction activity.
The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Dollars in Millions (except per share amounts)

Accounting Policies

(A) The consolidated financial statements of American Telephone and Telegraph Company ("Company") and its subsidiaries reflect the application of the accounting policies described in this note and in Notes (C), (H) and (N).

In December 1982 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 71 ("Statement No. 71"), "Accounting for the Effects of Certain Types of Regulation," which when implemented, will not significantly affect any year presented herein.

Consolidation—The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, except Western Electric Company, Incorporated ("Western Electric"). The consolidation process eliminates the effects of all significant intercompany transactions except as discussed below under "Purchases from Western Electric." The investment in Western Electric and certain other investments (where it is deemed that the Company's ownership gives it the ability to exercise significant influence over operating and financial policies) are included at equity (cost plus proportionate share of reinvested earnings). All other investments are included at cost. See also Note (G).

Revenue Refunds—The Company and its telephone subsidiaries record in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases From Western Electric—Western Electric has a substantial investment in manufacturing and other facilities which are devoted mainly to its business with the consolidated telephone subsidiaries. Western Electric has supply contracts with the subsidiaries which provide that the prices it charges for the telephone equipment and materials it manufactures or procures for them shall be as low as the prices it charges its most favored customers for like materials and services under comparable conditions. The consolidated financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries; this cost includes the return realized by Western Electric on its investment devoted to the communications business. See "Telephone Plant" below and Note (R).

Telephone Plant—The investment in equipment and materials dedicated to providing communications services is stated at its original cost. The amounts shown do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a return on Western Electric's investment. (See "Purchases from Western Electric" above.) It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but the Company considers that such purchases made by the consolidated companies represent about 50% of the consolidated plant investment. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6% and 6½% of such sales over the twenty year and the three year periods ended December 31, 1982, respectively. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to the affiliated companies.

Because the Company and most of its subsidiaries, including Western Electric, join in the filing of a consolidated federal income tax return, Western Electric's profits before income taxes included in the cost of those materials and services in the plant accounts of the Company and its telephone subsidiaries are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, the Company must exclude Western Electric profits in deriving the depreciable cost of its investment in telephone plant. Consequently, the Company's tax liability is higher than if it were permitted to depreciate the full amount it initially paid to Western Electric. Western Electric provides the Company with the funds necessary to pay the tax liability on these deferred profits in the year in which the Company first acquires the related telephone plant. These payments are treated as reductions of the investment in telephone plant which results in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease

in depreciation expense is offset by the aforementioned increase in the income tax provision. See also Note (R).

Material and Supplies—New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Non-reusable material is carried at estimated salvage value.

Depreciation—Prior to 1981, the Company's provision for depreciation was based on straight-line composite rates, prescribed by the Federal Communications Commission ("FCC"), determined on the basis of the average expected lives of categories of telephone plant acquired in a given year. In 1982 the FCC approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on average expected lives. In 1981 the FCC authorized the Company to begin implementation of the "remaining life" method of depreciation. The "remaining life" method provides for the full recovery of the investment in telephone plant. Effective January 1, 1981, the FCC also authorized shorter lives for customer terminal equipment (and certain other telephone plant). The increases in depreciation expense resulting from these FCC actions should be allowable in determining revenue requirements in rate-making proceedings. See also Note (P).

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs—The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections—During 1981 the FCC directed that beginning January 1981 certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction—Regulatory authorities allow the Company and its telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently but will be realized over the service life of the plant as the resulting higher

depreciation expense is recovered in the form of increased revenues.

Research—The cost of research and systems engineering performed by Bell Telephone Laboratories, Incorporated ("Bell Laboratories") is included as expense in determining Net Income.

Income Taxes:

(1) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges and their subsequent reversal, reflected as deferred income taxes—net, prevent the tax effect of these timing differences from distorting net income. The Company recognizes the tax effects of timing differences on the following transactions:

(a) When vacation pay and certain property taxes are deductible for income tax purposes in the year prior to being expensed in these financial statements, the tax effects of these timing differences are included in Current Liabilities—Income Taxes Deferred for One Year in the accompanying Balance Sheets.

(b) Depreciation for income tax purposes is determined based on accelerated methods and shortened lives which cause such depreciation to be higher during the early years of plant life and lower in later years than the depreciation charges for such plant reflected in these financial statements. The accumulated tax effects of these timing differences are shown in the accompanying Balance Sheets as Deferred Credits—Accumulated Deferred Income Taxes.

(2) Investment tax credits result from provisions of the federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and, except for the additional one percent credit available under the Tax Reduction Act of 1975 which must be contributed currently to the Bell System Employee Stock Ownership Plan, are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

(B) In 1982, the Company changed its accounting for certain deferred income taxes (primarily state and local taxes) to record deferred taxes on timing differences only when such deferred taxes are recognized by regulators in the rate-making process. This change was made to achieve greater consistency between financial reporting and the intrastate regulatory rate-making process. The effect of this change increased Income Applicable to Common Shares by \$352.7 (\$.42 per share). The cumulative

Income Taxes

effect of this change as of the beginning of 1982 was \$286.8 (\$.34 per share). See also Note (O). Pro forma amounts assuming the change in accounting for deferred income taxes had been applied retroactively are as follows:

	1982	1981	1980
Income Applicable to Common Shares	\$6,850.1	\$6,726.3	\$5,863.4
Earnings per Common Share	\$8.06	\$8.53	\$8.10

The components of operating income tax expense were as follows:

	1982	1981*	1980*
Federal:			
Current	\$ (786.8)	\$ 785.1	\$ 564.0
Deferred-net	3,973.9	1,782.2	1,563.3
Investment tax credits-net	1,223.9	1,118.7	1,114.1
	4,411.0	3,686.0	3,241.4
State and local:			
Current	299.7	287.9	222.8
Deferred-net	219.6	145.2	116.2
	519.3	433.1	339.0
Total	\$4,930.3	\$4,119.1	\$3,580.4

*Restated, see Note (S).

Income taxes on non-operating income included in Miscellaneous Income and Deductions-net were:

	1982	1981	1980
Federal:			
Current	\$ 8.3	\$72.1	\$57.7
Deferred-net	10.6	1.5	2.5
	18.9	73.6	60.2
State and local:			
Current	11.6	11.3	3.1
Deferred-net	.2	—	.1
	11.8	11.3	3.2
Total	\$30.7	\$84.9	\$63.4

Deferred income tax expense results principally from timing differences between depreciation expense for income tax purposes and depreciation expense reflected in these financial statements. The decrease in 1982 Federal Income Taxes-Current and the related increase in Federal Income Taxes-Deferred is principally due to adjustments, primarily relating to prior years, made to reflect the reestablishment of eligibility for current and prior years for accelerated methods of tax depreciation for The Pacific Telephone and Telegraph Company ("Pacific"), a subsidiary, discussed in Note (E) and to conform the treatment of installation costs for tax purposes to the accounting treatment of such costs for financial statement purposes.

The effective federal income tax rate, as determined by dividing Federal income taxes (see above) by the sum of Federal income taxes, Income before cumulative effect of a change in accounting principle (after excluding the net income applicable to investments in unconsolidated companies accounted for on an equity basis), and the ownership

interest of others in the net income of certain consolidated subsidiaries, was 39.9%, 37.9% and 37.9% for the years 1982, 1981 and 1980, respectively. The differences of 6.1%, 8.1% and 8.1%, respectively, between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

	1982	1981*	1980*
(1) Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	1.3%	2.8%	3.6%
(2) Interest charged construction, which is excluded from taxable income, net of applicable depreciation	.8	.8	.9
(3) Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(.9)	(.8)	(.8)
(4) Amortization of investment tax credits over the life of the plant which gave rise to the credits	5.7	5.3	4.6
(5) Net effects of recognizing both the reestablished eligibility for investment tax credits and the required tax payment. See Note (E).	(1.4)	—	—
(6) Other differences	.6	—	(.2)
Total	6.1%	8.1%	8.1%

*Restated, see Note (S).

**Provision
for Pensions
and Death
Benefits**

(C) Employees of the Company, its consolidated subsidiaries, Western Electric and Bell Laboratories are covered by two national Bell System noncontributory pension and death benefit plans, one for management employees and one for non-management employees. Contributions to such plans are made to irrevocable trust funds. It has been, and continues to be, the policy of the companies to make contributions which are equal to the current year cost of the plans determined on a going concern basis by an actuarial method specified by the Employee Retirement Income Security Act of 1974 ("ERISA").

The following data provide information on plan costs:

	1982	1981	1980
Balance of accumulated costs at beginning of year	\$35,852.7	\$31,101.2	\$25,867.0
Current year cost	3,516.4	3,374.7	3,544.0
Net investment income	NA	2,748.7	2,911.1
Benefits paid	NA	1,371.9	1,220.9
Balance of accumulated costs at end of year	NA	\$35,852.7	\$31,101.2
Current year cost as a percent of salaries and wages	12.8%	13.1%	15.2%

(NA = Not Available)

The value of pension fund assets used for actuarial purposes equals the balance of accumulated costs shown above.

Amendments to the plans during 1982 had the effect of increasing 1982 pension cost by approximately \$345.3 while recognition of 1981 actuarial experience had the effect of decreasing 1982 costs. Amendments to the plans during 1981 had the effect of increasing 1981 pension cost by approximately \$145.8. Changes in plan design effective October 1, 1980, together with changes in actuarial assumptions and 1980 experience reduced 1981 pension cost by approximately \$960.4. Changes in actuarial assumptions, an amendment to the plans prior to October 1, 1980, and changes in plan design effective October 1, 1980 decreased pension cost for 1980 by approximately \$141.6.

Statement of Financial Accounting Standards No. 36 ("Statement No. 36") requires the following disclosure to be made of the actuarial present value of accumulated plan benefits and the fair value of net assets available for plan benefits ("fair value" essentially is current market value). The following data are based on the latest actuarial valuations.

	at December 31	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	\$20,827.4	\$21,455.3
Non-vested	3,413.4	4,050.5
Total	\$24,240.8	\$25,505.8
Fair value of net assets available for plan benefits	\$35,781.8	\$33,523.7

The rates of return used in determining the actuarial present value of accumulated plan benefits are the rates used by the Pension Benefit Guaranty Corporation ("PBGC") for determining the value of plan benefits under terminated pension plans and averaged approximately 10.6% and 8.9% compounded annually at December 31, 1981 and 1980, respectively. If the rates used by PBGC had been 1% lower, the actuarial present value of accumulated plan benefits at December 31, 1981 would have been approximately \$27,166.9 instead of \$24,240.8 as shown above.

The Company believes that misleading inferences concerning the plan's funding status may result from a comparison of the actuarial present value of accumulated plan benefits with the fair value of net assets available for plan benefits. This is because plan assets have been accumulated by making contributions equal to current year costs determined on a going concern basis as required by ERISA, while the determination of the actuarial present value of accumulated plan benefits required by Statement No. 36 is essentially a "plan termination" type calculation which uses methods and assumptions which are not the same as those used to determine current year pension costs. The required method for determining the actuarial present value of accumulated plan benefits fails to take into consideration probable future events such as future wage and salary increases and future employee service which have been taken into consideration by the Company and its subsidiaries in determining costs for the plans. Furthermore, the fair value of net assets available for plan benefits will fluctuate which also may create erroneous impressions with respect to long term progress on funding the pension plans.

(D) Miscellaneous Income for the years 1982, 1981 and 1980 includes the net income applicable to investments in unconsolidated companies, other than Western Electric, accounted for on an equity basis of \$35.6, \$31.9 and \$30.6, respectively. Miscellaneous Deductions for the years 1982, 1981 and 1980 include the ownership interest of others in the net income of certain consolidated subsidiaries of \$56.8, \$79.8 and \$164.5, respectively. See also Note (B).

**Miscellaneous
Income and
Deductions—
Net**

**Rate and
Related
Matters**

(E) It previously was reported that the Internal Revenue Service ("IRS") had contended that a refund order of the California Public Utilities Commission rendered Pacific ineligible for certain federal tax benefits relating to accelerated depreciation and investment tax credits. In December 1982, Congress enacted legislation which clarifies the eligibility requirements for these tax benefits and confirms Pacific's eligibility for the years previously under contention with the IRS. Eligibility is conditioned upon Pacific's entering into a closing agreement with the IRS in 1983; this agreement will require tax payments based on amounts previously refunded to customers. As a result of this probable eligibility, interest expenses previously accrued for anticipated tax deficiencies have now been eliminated and investment tax credits for which Pacific previously was not considered to be eligible have now been recognized and portions thereof have been amortized. The net effects of recognizing in 1982 both the reestablished eligibility and the required tax payment was to increase Income Applicable to Common Shares by \$191.2 (\$.22 per share) [of which \$47.8 (\$.06 per share) is applicable to prior years], reduce Federal Income Taxes—Current by \$885.2, increase Federal Income Taxes—Deferred by \$1,009.4 and increase Investment Tax Credits—Net by \$325.0.

As of December 31, 1982 approximately \$164.7 (\$.19 per share) of intrastate revenues (net of taxes) had been collected subject to refund in various states.

**Interstate
Revenues
Tax**

(F) An August 1979 county court ruling in Illinois, which was reversed in 1981 by an intermediate appellate court, would have subjected interstate telephone revenues earned in Illinois in 1967 and subsequent years to a messages tax. The reversal by the intermediate court was upheld by the Illinois Supreme Court in December 1982. The Company now believes that no material liability exists.

**Investments
at Equity**

(G) *Other*—At December 31, 1982, includes principally:

Bell Telephone Laboratories, Incorporated—50% owned by the Company and 50% owned by Western Electric. The Company's investment at equity is \$345.6.

The Southern New England Telephone Company—23.7% owned. The Company's investment at equity is \$186.8. The market value of the shares owned by the Company based on the closing price as obtained from the Composite Tape was \$203.2.

Cincinnati Bell Inc.—31.7% owned. The Company's investment at equity is \$115.5. The market value of the shares owned by the Company based on the closing price as obtained from the Composite Tape was \$97.6.

The following summarized financial information is for the above three equity companies combined:

	1982	1981	1980
Operating revenues	\$3,502.7	\$2,990.5	\$2,423.1
Operating expenses	3,039.9	2,535.2	2,051.2
Net Income	132.3	146.3	114.3
	1982	1981	
Telephone plant—net	\$2,529.6	\$2,452.2	
Current assets	357.8	327.0	
Noncurrent assets	1,114.8	852.3	
Total assets	\$4,002.2	\$3,631.5	
Preferred shares subject to mandatory redemption	\$ 34.5	\$ 41.0	
Long-term debt	784.7	784.7	
Current liabilities	440.4	460.9	
Noncurrent liabilities	866.6	693.8	
Total liabilities	\$2,126.2	\$1,980.4	

Western Electric Company, Incorporated and its subsidiaries—Wholly-owned. The following summarized consolidated financial information is for Western Electric:

	1982	1981	1980
Sales	\$12,579.9	\$13,008.0	\$12,032.1
Operating costs and expenses	11,359.5	11,549.8	10,582.5
Provision related to Facility Utilization Plan	625.0	—	—
Net Income	336.7	711.3	693.2
	1982	1981	
Current assets	\$4,770.7	\$5,101.4	
Net plant and equipment	2,936.8	2,867.7	
Other assets	490.3	369.2	
Total assets	\$8,197.8	\$8,338.3	
Current liabilities	\$1,669.4	\$1,881.1	
Long-term debt	889.7	807.1	
Other liabilities	881.6	658.9	
Total liabilities	\$3,440.7	\$3,347.1	

The 1982 Provision related to Facility Utilization Plan represents a one-time charge to earnings to phase out or reduce production at certain manufacturing facilities in order to improve plant utilization and reduce costs. The provision includes the write-down of plant and equipment to net realizable value and estimated costs for employee and equipment relocations and employee termination benefits.

**Cash and
Temporary
Cash
Investments**

(H) Cash and Temporary Cash Investments have been reduced by the amount of drafts outstanding with a corresponding reduction in Accounts Payable. It is the practice of the Company and most telephone subsidiaries to make certain payments by draft and to record such drafts as accounts payable until such time as the banks honoring the drafts have presented them for payment. The Company maintains cash and temporary cash investments not only to meet its own obligations but to maintain funds upon which the subsidiary companies may draw on a day-to-day basis to meet their obligations, including coverage for outstanding drafts.

**Common
Shares**

(I) Book value per common share amounted to \$69.07, \$67.33 and \$65.22 at December 31, 1982, 1981 and 1980, respectively.

At December 31, 1982 there were 6,318,652 authorized but unissued common shares reserved for the conversion of the Company's outstanding \$4 cumulative convertible preferred shares.

Common shares outstanding increased in the periods indicated as follows:

721,589, 1,024,946 and 1,008,811 shares issued in the years 1982, 1981 and 1980, respectively, upon conversion of the Company's \$4 cumulative convertible preferred shares. See also Note (J).

27,700,000 and 18,150,000 shares sold through underwritten offerings in 1982 and 1981, respectively.

26,887,926, 22,775,416 and 16,183,915 shares sold at 95% of market in the years 1982, 1981 and 1980, respectively, under the Share Owner Dividend Reinvestment and Stock Purchase Plan. In addition, 1,383,737, 1,565,270 and 6,430,372 shares were sold at market for optional cash payments in the years 1982, 1981 and 1980, respectively, under that Plan.

8,201,200, 8,233,895 and 8,087,058 shares sold at market in the years 1982, 1981 and 1980, respectively, to the Bell System Savings Plan for Salaried Employees.

6,922,300, 5,908,700 and 5,731,700 shares sold at market in the years 1982, 1981 and 1980, respectively, to the Bell System Savings and Security Plan.

2,697,245, 2,621,592 and 2,427,063 shares issued at market in the years 1982, 1981 and 1980, respectively, in connection with the Bell System Employee

Stock Ownership Plan through the election of an extra 1% Investment Tax Credit.

117,500 shares sold at market in 1982 to the Bell System Voluntary Contribution Plan.

The Company issued 6,685,360 common shares in 1982 in connection with the acquisition, effective May 12, 1982, of the remaining ownership interest of others in Pacific's common shares. Included under "Issuance of shares, net of redemptions" for 1982 in the Statements of Sources of Funds Supporting Construction Activity is \$371.0 for these shares.

The Company issued 13,589,301 shares in 1981 in connection with the acquisition, effective December 22, 1980, of the remaining ownership interest of others in three consolidated subsidiaries. Included under "Issuance of shares, net of redemptions" for 1980 in the Statements of Sources of Funds Supporting Construction Activity is \$662.5 for these shares.

(J) Authorized are 100,000,000 preferred shares at \$1 par value. Outstanding are:

**Preferred
Shares****Convertible Preferred Shares
Subject to Redemption**

	\$50 stated value, \$4 cumulative convertible preferred	Proceeds in excess of stated value
December 31		
1980	7,661,925	\$1.7
1981	6,688,228	\$1.4
1982	6,002,719	\$1.3

Each \$4 preferred share is convertible into approximately 1.05 common shares of the Company. 685,509, 973,697 and 958,367 shares were converted in the years 1982, 1981 and 1980, respectively. See Note (I). Each share may be redeemed by the Company at stated value; however, such redemption is not required.

**Preferred Shares Subject to
Mandatory Redemption**

	\$50 stated value, cumulative preferred	\$1,000 stated value, cumulative preferred
	\$3.64	\$77.50
December 31		
1980	10,000,000	575,000
1981	10,000,000	562,500
1982	10,000,000	550,000

The \$3.64 preferred shares may be redeemed by the Company at a premium of \$2.70 per \$50 share on or before April 30, 1983 and at a diminishing premium thereafter. On May 1 of each year, commencing in 1984, the Company through a sinking fund must redeem without premium 3% of these shares; an additional 3% may be redeemed each year at the Company's option.

The \$3.74 preferred shares may be redeemed by the Company at a premium of \$2.78 per \$50 share on or before January 31, 1984 and at a diminishing premium thereafter. On February 1 of each year, commencing in 1985, the Company through a sinking fund must redeem without premium 3% of these shares; an additional 3% may be redeemed each year at the Company's option.

The \$77.50 preferred shares may be redeemed by the Company at a premium of \$53.10 per \$1,000 share on or before January 31, 1984 and at a diminishing premium thereafter. On February 1 of each year, the Company through a sinking fund must redeem at stated value 12,500 of these shares through 1992 and 18,750 shares each year thereafter and may redeem an additional equal number each year at the Company's option. Under these sinking fund provisions, the Company redeemed on February 1, 12,500 shares in each of the years 1980 through 1983 which reduced stated capital (as defined in the New York Business Corporation Law) by \$12.5 in each year.

The total sinking fund requirement for all series of preferred shares subject to mandatory redemption are \$12.5 for 1983, \$27.5 for 1984, \$42.5 for 1985, 1986 and 1987. These sinking fund requirements are cumulative; that is, should redemption amounts not be set aside in full because the net assets of the Company are insufficient, or for any other reason, such amounts must be set aside, without interest, before any common share dividends are paid or declared, or any common shares are purchased or redeemed.

All preferred shares rank prior to the common shares both as to dividends and on liquidation but have no general voting rights. However, if dividends on any series of preferred shares are in default in an amount equal to six quarterly dividends, the number of directors of the Company will be increased by two, and the holders of all preferred shares will have the exclusive right, voting separately as a class, to elect such two additional directors so long as such default continues.

(K) Preferred Shares Subject to Mandatory Redemption—Pacific has authorized 24,000,000 of \$25 par value cumulative non-voting preferred shares.

Outstanding shares amounted to 21,430,000, 22,120,000 and 22,120,000 at December 31, 1982, 1981

and 1980, respectively. The dividend rates on these shares ranged from 7.88% to 11.25%. These shares are subject to mandatory pro rata redemptions without premium through annual sinking fund contributions. Under these sinking fund provisions, Pacific redeemed 690,000 shares in 1982. The total sinking fund requirements for the years 1983 through 1987 are \$24.9, \$40.5, \$42.4, \$46.7 and \$46.7, respectively.

(L) Interest rates and maturities on long and intermediate term debt outstanding at December 31, 1982 were as follows (see also Note (P)):

Maturities	2½% to 6½%	7% to 8½%	9% to 17%	Total
1984	\$ 355.0	\$ 50.0	\$ 150.0	\$ 555.0
1985	445.0	50.0	200.0	695.0
1986	235.0	—	326.0	561.0
1987	375.0	—	—	375.0
1988-1997	3,767.0	375.0	2,534.0	6,676.0
1998-2007	4,777.0	5,423.1	61.5	10,261.6
2008-2017	825.0	11,147.0	3,749.5	15,721.5
2018-2021	—	1,075.0	8,570.0	9,645.0
	\$10,779.0	\$18,120.1	\$15,591.0	\$44,490.1
Other				81.9
Unamortized discount—net				(467.0)
Total				\$44,105.0

Substantially all of the properties of two of the Company's telephone subsidiaries, comprising about \$21,235.9 of the total gross consolidated telephone plant, are subject to lien under mortgage bond indentures with outstanding balances of \$2,680.0.

(M) The Company's telephone subsidiaries follow the practice of financing construction of telephone plant partially through bank loans, commercial paper, commercial notes and other notes, all of which are payable in twelve months or less after issuance, pending long term financing. See also Note (P).

In March 1981, the Company negotiated two-year revolving credit agreements with certain major United States banks to borrow up to \$750 million. In July 1982, the Company renegotiated these agreements and obtained new four-year revolving credit agreements at a reduced commitment fee of ¼ of 1 percent per annum on any unused portion. No part of this line of credit has been used.

Long and Intermediate Term Debt

Debt Maturing Within One Year

Ownership Interest of Others in Consolidated Subsidiaries

Debt maturing within one year is included as debt in the Company's computation of debt ratios and consists of the following at December 31:

	Amounts			Weighted Average Interest Rate		
	1982	1981	1980	1982	1981	1980
Notes payable:						
Bank loans	\$ 438.7	\$ 614.1	\$ 903.8	9.3%	13.1%	18.5%
Commercial paper	1,524.2	1,921.2	1,930.6	8.5%	12.4%	18.4%
Commercial notes	531.7	683.8	754.9	8.6%	12.5%	18.7%
Other notes	65.4	15.0	157.8	10.3%	12.3%	19.0%
Long and intermediate term debt maturing within one year	485.0	785.0	595.0	—	—	—
Total	\$3,045.0	\$4,019.1	\$4,342.1	—	—	—
Average amounts of notes payable outstanding during the year	\$3,335.3	\$3,206.7	\$3,918.2	12.5%*	16.3%*	12.9%*
Maximum amounts of notes payable at any month end during the year	\$3,982.7	\$3,662.9	\$4,709.1	—	—	—

*Computed by dividing the average daily face amount of notes payable into the aggregate related interest expense.

Lease Commitments

(N) The Company and its consolidated subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. See Note (P). At December 31, 1982 the aggregate minimum rental commitments under noncancellable leases for the periods shown were approximately as follows:

Years	Amounts
1983	\$ 973.8
1984	762.6
1985	584.5
1986	420.3
1987	300.9
Thereafter	2,633.3
Total	\$5,675.4

These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the following amounts would have been included on the Balance Sheets:

	at December 31	
	1982	1981
Assets	\$1,791.7	\$1,781.9
Less:		
Accumulated amortization	736.2	675.8
Total	\$1,055.5	\$1,106.1
Lease commitments	\$1,213.0	\$1,236.9

The effect on Income Applicable to Common Shares for 1982, 1981 and 1980 would have been insignificant. Implementation of Statement No. 71 will require recognizing on the Balance Sheets the

assets and related obligations associated with capital leases. See Note (A).

(O) All adjustments necessary for a fair statement of income for each period have been included.

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Earnings Per Common Share*
1980 1st	\$12,054.4	\$ 2,076.1	\$1,410.9	\$1.94
2nd	12,376.6	2,150.6	1,447.3	1.96
3rd	12,940.3	2,247.9	1,527.5	2.05
4th	13,286.9	2,369.8	1,582.1	2.09
Total	\$50,658.2	\$ 8,844.4	\$5,967.8	\$8.04
1981 1st	\$13,470.0	\$ 2,318.7	\$1,488.4	\$1.90
2nd	14,122.0	2,370.2	1,541.2	1.94
3rd	15,145.2	2,759.9	1,923.6	2.36
4th	15,328.4	2,721.7	1,869.7	2.26
Total	\$58,065.6	\$10,170.5	\$6,822.9	\$8.47
1982 1st	\$15,638.1	\$ 2,607.2	\$2,010.6	\$2.40
2nd	16,144.7	2,614.7	1,745.7	2.04
3rd	16,637.9	2,898.0	2,021.1	2.32
4th	16,672.3	2,138.4	1,501.4	1.66
Total	\$65,093.0	\$10,258.3	\$7,278.8	\$8.40

Results for the fourth quarter of 1982 include the Provision related to Facility Utilization Plan for Western Electric. See Note (G). Results for the second and fourth quarters of 1982 include adjustments to recognize Pacific's reestablished eligibility which increased Net Income for the periods by \$34.2 and \$157.0 (\$.04 and \$.18 per share), respectively. See Note (E). Results for the first, second and third quarters of 1982 and for all quarters of 1981 and 1980 have been restated to reflect the effects of the refund order issued by the FCC in the fourth quarter of 1982. See Note (S).

Quarterly Financial Information (unaudited)

Results for the first, second and third quarters of 1982 have been restated for the change in accounting for certain deferred income taxes. Such restatements increased Net Income for the periods by \$310.2, \$16.5 and \$15.8 (\$.38, \$.02 and \$.02 per share), respectively. The change in accounting increased Net Income in the fourth quarter of 1982 by \$10.2 (\$.01 per share). Income before the cumulative effect of the change for the first quarter of 1982 was \$1,723.8. The prior years cumulative effect of the change, included in the first quarter of 1982, was \$286.8 (\$.34 per share). See Note (B).

Pro forma amounts assuming the change in accounting for deferred income taxes had been applied in prior years are as follows:

Calendar Quarter	1981		1980	
	Net Income	Earnings Per Common Share*	Net Income	Earnings Per Common Share*
1st	\$1,499.4	\$1.92	\$1,425.7	\$1.96
2nd	1,554.7	1.96	1,457.8	1.98
3rd	1,937.0	2.37	1,538.3	2.06
4th	1,880.9	2.27	1,592.3	2.10
Total	\$6,872.0	\$8.53	\$6,014.1	\$8.10

*Because of increasing numbers of common shares outstanding each quarter, the sum of quarterly earnings per common share may not equal earnings per common share for the year.

(Q) In June 1980, MCI Communications Corporation was awarded \$1.8 billion in treble damages in a civil antitrust suit against the Company. On January 12, 1983, the U.S. Circuit Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. The case is subject to petition for rehearing. In the opinion of the Company's legal counsel, any monetary liability or financial impact to which the Company and the Bell System companies might be subject after final adjudication would not be material in amount.

**MCI and
Litton
Antitrust
Litigation**

In June 1981, in another antitrust suit against the Company and certain Bell System companies, Litton Industries, Inc. was awarded \$276.8 million in treble damages. On February 3, 1983, the U.S. Circuit Court of Appeals for the Second Circuit upheld the lower court's decision. The case is subject to petition for rehearing. Should it ultimately be determined that the Litton award is payable, Income Applicable to Common Shares would be decreased in a future period. If such determination had been made as of December 31, 1982, the decrease in Income Applicable to Common Shares could have been as much as \$170.0 (\$.20 per share).

(R) On August 24, 1982, a modified final judgment between the Company and the Department of Justice was entered by the U.S. District Court for the District of Columbia. Both the Department of Justice and the Company have stipulated dismissal of the Department of Justice's 1974 civil antitrust action involving the Company and its subsidiaries. The modified final judgment and the stipulated dismissal are subject to the outcome of appeals filed by certain intervenors. The terms of the modified final judgment require that the Company divest those parts of the Bell System operating telephone companies that provide local exchange and exchange access service, as well as printed directory advertising, and also require termination of the License Contracts between the Company and the operating companies and the Standard Supply Contract between Western Electric and the operating companies. Interexchange facilities, including those currently owned by the operating companies, would remain a part of the Company, which would continue to own Western Electric and Bell Laboratories. Ownership of existing customer premises equipment ("CPE") would remain with the Company. The divested operating companies are restricted to exchange services and other natural monopoly services; however, they may provide new CPE. An operating company is permitted to engage in any other business upon a showing to the Court that there is no substantial possibility that the company could use its monopoly power to impede competition in the market it seeks to enter. The Company's access to the services of the divested operating companies would be on terms and condi-

**Department
of Justice
Antitrust
Action**

**Additional
Financial
Information**

(P)	1982	1981	1980
Depreciation—			
Percentage of average depreciable telephone plant	6.13%	6.05%	5.86%
Amortization of investment tax credits	\$ 795.5	\$ 523.2	\$ 401.1
Gross receipts, payroll-related and other taxes:			
Gross receipts	\$1,333.0	\$1,211.0	\$1,065.8
Social security	1,370.2	1,164.9	940.2
Capital stock	154.5	146.4	145.3
Miscellaneous	72.0	62.5	54.8
Total	\$2,929.7	\$2,584.8	\$2,206.1
Interest expense:			
On long and intermediate term debt	\$3,866.8	\$3,608.3	\$3,055.5
On notes payable	416.6	522.3	505.1
Other (E)	(353.4)	232.2	207.5
Total	\$3,930.0	\$4,362.8	\$3,768.1
Rental expense*	\$1,508.4	\$1,398.5	\$1,119.9
*Includes rental expense for satellite rentals based on usage	\$ 156.3	\$ 128.4	\$ 116.3

tions equal to other interexchange carriers. The operating companies would be divested by a spin-off to the Company's share owners or by other disposition. At the time of divestiture the Company will have to assure that each divested operating company has a debt ratio of approximately 45% (except for approximately a 50% debt ratio for Pacific).

The ultimate effects of the divestiture on the future operations of the Company cannot be determined at this time.

As a result of such divestiture, the operating companies could be required to make an immediate payment of approximately \$1.0 billion of federal income taxes previously deferred on intercompany profits. While payment of these deferred taxes should have no direct effect on net income, an immediate payment would increase the operating companies' needs for cash. However, the Company believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the IRS which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable. See also Note (A), "Telephone Plant".

Regulatory Actions

(S) In June and November 1982, the FCC approved Company plans to establish a nationwide subsidiary to offer on a detariffed basis both enhanced services and new CPE. The FCC also approved the Company's plans to reimburse the operating telephone companies and Long Lines for expenses incurred by them in connection with the formation of the new subsidiary and with the development of the new enhanced services and CPE. However, the November FCC order requires that liabilities be recognized for that portion of these reimbursements which the FCC believes are subject to refund to customers in future regulatory proceedings. Accordingly, results were restated in November to reflect the estimated amounts to be refunded. This reduced Income Applicable to Common Shares for the years 1982, 1981 and 1980 by \$46.4, \$65.2 and \$90.5 (\$.05, \$.08 and \$.13 per share), respectively.

The FCC also announced its intention to determine if reimbursements by the Company are required for CPE development expenses incurred by Western Electric. If refunds to customers are required, Income Applicable to Common Shares would be decreased in a future period. If such determination had been made as of December 31, 1982, the decrease in Income Applicable to Common Shares could have been as much as \$80.0 (\$.09 per share). ■

Supplementary Data

Accounting for the Effects of Inflation (Unaudited)

Dollars in Millions (except per share amounts)

High rates of inflation drew increased attention to the need to assess both the impact of inflation on business and the results of management's efforts in coping with it. No consensus has been reached either on the preferability of any one reporting method or on the practical usefulness of the resulting data. The Financial Accounting Standards Board ("FASB"), believing that additional experience should be gained and experimentation undertaken with respect to reporting the effects of inflation, issued Statement of Financial Accounting Standards No. 33 ("Statement No. 33") which requires disclosure of supplementary data to reflect the effects of general inflation (constant dollar) and the effects of changes in specific prices (current cost). The data in Tables A and B have been prepared to comply with Statement No. 33; however, the Company believes that it should be used with care because the data neither completely nor accurately portray inflation's effects.

Traditionally, financial statements have been prepared on the basis of historical costs, i.e., the actual number of dollars exchanged at the time each transaction took place. However, it is recognized that general inflation has caused the purchasing power of dollars to decline, the result of which is the presentation of financial statement elements in dollars of varying purchasing power. To eliminate this disparity, such elements may be restated in "constant" dollars, each of which then has equal purchasing power. To reflect the effects of inflation and thus express operating results in dollars of comparable purchasing power, Statement No. 33 requires the Company to show what the FASB characterizes as "income from continuing operations" as if depreciation of plant assets had been based on asset amounts expressed in dollars of constant purchasing power. (This is shown in column (b) of Table A, stated in average 1982 dollars.) This adjustment is derived from the application of the Consumer Price Index for All Urban Consumers ("CPI-U"), a measure of inflation based on changes in the costs to consumers of a wide range of commodities and services. (The 1982 average CPI-U has been estimated based on actual statistics through November 1982.)

Technological improvements, changes in supply and demand, and productivity gains cause the specific prices of goods and services purchased by a particular business to fluctuate differently from price changes that would be caused solely by general inflation. To reflect the effects of such specific

price changes on operating results, Statement No. 33 requires that the Company also show "income from continuing operations" as if depreciation of plant assets had been based on the "current cost" of these or comparable assets, rather than on historical cost. (This calculation is shown in column (c) of Table A, stated in average 1982 dollars.) Because current cost data are unique to each company, the current cost of telephone plant has been calculated by applying internally-generated indexes to investments in each of the major telephone plant accounts.

In computing "income from continuing operations," only depreciation expense has been adjusted to show the effects of inflation. Because most other operating expense items are current year transactions, they already are recorded in dollars of approximately current purchasing power.

In accordance with requirements of Statement No. 33, no adjustments have been made to reflect any effects of inflation on provisions for federal income taxes. The effective federal income tax rate (operating federal income taxes divided by the sum of operating federal income taxes and "income from continuing operations") for the historical data in column (a) of Table A would be 38.7%. The rate reflecting adjustments for inflation would be 98.9% for column (b) and 75.7% for column (c) of Table A. While the federal income taxes used in these computations include investment tax credits and tax deferrals relating to accelerated depreciation, the effects of inflation on effective tax rates also would be increased dramatically, even though in lower percentages, if these tax benefits were excluded. These tax benefits were intended by Congress to provide funds for investment in other capital assets in order to increase productivity and employment.

Amounts shown as "net assets at year end" in Table B are the sum of common share owners' equity, convertible preferred shares, and the common share owners' equity portion of the ownership interest of others in consolidated subsidiaries as shown in the historical cost financial statements which are adjusted for general inflation by the difference between telephone plant at historical cost and telephone plant in constant dollars and are adjusted for changes in specific prices by the difference between telephone plant at historical cost and telephone plant at current cost.

It is essential that regulatory authorities allow telephone services to be priced at levels that will preserve the Company's ability to attract the con-

tinuing additional amounts of capital necessary to meet the public's demand for telephone services. Such price levels need to provide rates of return which, after giving recognition to the effects of inflation, adequately will compensate purchasers of securities for funds provided for telephone plant construction. This inflation-affected compensation would acknowledge higher interest rates for debt securities in anticipation that such debt will be repaid in dollars having less purchasing power; it would acknowledge that returns on equity securities must be comparable with returns available on alternative equity investment opportunities. Because of this comparable return requirement for equity securities, any reflection of "constant dollar" or "current cost" depreciation in the returns on equity of non-regulated companies should result in regulatory recognition of the need for increased returns on equity for the Bell System and thus give recognition to similar inflation effects on its depreciation. Accordingly, the Company has no reason to expect that increases in operating revenues will not keep pace with the effects of inflation on depreciation; the constant dollar and current cost amounts shown for telephone plant investment in the accompanying schedule reflect this premise. Should regulatory authorities not give recognition to the need for such higher equity returns, then the recoverable amount of the Company's plant, when adjusted for inflation's effects, could be reduced. No such reduction is necessary for constant dollar results in 1982 (Table A column (b)); the constant dollar depreciation provided for any 1982 reduction that would have been necessary. The cumulative amount of constant dollar reductions applicable to all years through December 31, 1982, could have reduced "net assets," as defined herein, by as much as \$89,622.5. The amounts of such reductions applicable to current cost results in 1982 (Table A column (c)) could have been as much as \$6,422.7, the cumulative amount of such reduction at December 31, 1982, could have reduced net assets by as much as \$78,224.4.

The reader should note the item identified in Tables A and B as "benefits from decline in purchasing power of net amounts owed." During periods of inflation lenders of money experience a loss due to the fact that amounts owed to them will be repaid in dollars having less purchasing power than the dollars originally lent; it is in anticipation of such loss that interest rates are high during inflationary times. Conversely, to the extent that lenders are losing purchasing power, borrowers are benefiting.

In assessing the impact of inflation on business, the

Company believes that the benefits from inflation's effects on money that is borrowed should be viewed as an offset to interest expense. The benefit, however, does not provide funds to the Company.

The disclosure called for by Statement No. 33 is misleading by its incorrect inference that the Company ought not to have paid out more in dividends than its inflation-adjusted income from continuing operations. Statement No. 33 is based on the incorrect premise that depreciation expense, rather than being a means of allocating asset costs to accounting periods, provides funds to be set aside and used for the replacement of those assets being depreciated. Statement No. 33 also assumes that the cost of new assets acquired to replace retired assets will equal the original cost of the retired assets adjusted for either inflation or specific price increases; obviously, such is not the case in a high technology industry such as ours. Technological advances hold down price increases for new communications equipment and also increase significantly the productive capacity of both new and existing equipment. As shown in the accompanying Analysis of Construction Program and Cash Utilization (Table C), internally-generated funds, after paying dividends, were sufficient not only to provide all the funds needed for plant replacement, modernization, and customer movement, but also to provide \$6,186.4, \$4,742.2 and \$2,845.6 in 1982, 1981 and 1980, respectively, for financing new telephone growth and other corporate investments.

The reader also should note that the increase in the

specific prices of telephone plant was greater than the increase adjusted for the effects of general inflation for 1982 due to the significant decrease in the inflation rate during the year ended December 31, 1982. In prior years (as shown in Table B) the increase in the specific prices of telephone plant actually had been less than the general increase in the rate of inflation which was primarily attributable to "benefits of technological improvements in constructing telephone plant." These technological improvements, combined with the resulting improvements in productivity, were responsible for the Company's success in prior years in keeping the rate of growth in the prices of its services below the rate of growth in the general level of prices.

Statement No. 33 also requires that the data shown in Table B be presented in a five year summary, restated into the average purchasing power of the dollar during 1982. The calculations for these restatements (except market price per common share) have been made by applying the average CPI-U for 1982 to the data for the years 1978 through 1981. The calculations for market price per common share have been made by applying the average CPI-U for 1982 to the data for the years 1978 through 1982. Since the actual market price for 1982 is stated in year end dollars which have a lower purchasing power than the average 1982 dollar, the effect of the calculation for 1982 is to decrease the year end market price per common share from the actual quoted amount. No adjustments have been made to the historical cost information, which is presented for comparison purposes only.

**Table A—Supplementary Financial Data
Adjusted for the Effects of Inflation and Changing Prices—December 31, 1982**

DOLLARS IN MILLIONS	As Reported in the Historical Cost Financial Statements (a)	Adjusted for General Inflation (Constant Dollars) (b)	Adjusted for Changes in Specific Prices (Current Cost) (c)
Operating revenues	\$ 65,093.0	\$ 65,093.0	\$ 65,093.0
Depreciation	8,734.5	15,676.4	14,308.7
Other operating expenses	36,290.8	36,290.8	36,290.8
Operating federal income taxes	4,411.0	4,411.0	4,411.0
Other operating taxes	5,398.4	5,398.4	5,398.4
Other income	(663.7)	(663.7)	(663.7)
Interest expense	3,930.0	3,930.0	3,930.0
	58,101.0	65,042.9	63,675.2
Income from continuing operations	\$ 6,992.0	\$ 50.1	\$ 1,417.8
Benefits from decline in purchasing power of net amounts owed		\$ 2,880.0	\$ 2,880.0
Increase in specific prices (current cost) of telephone plant held during the year			\$ 15,179.9
Effect of increase in general price level (constant dollar)			8,513.0
Excess of increase in specific prices over increase in the general price level			\$ 6,666.9
Telephone plant, net of accumulated depreciation	\$128,063.4	\$219,142.4†	\$207,559.1†

†Year end 1982 dollars

Table B—Supplementary Five-Year Comparison of Selected Financial Data

DOLLARS IN MILLIONS (except per share amounts)	1982	1981*	1980*	1979	1978
Operating revenues in average 1982 dollars	\$ 65,093.0	\$ 61,646.7	\$ 59,361.3	\$ 60,404.8	\$ 60,699.7
Historical cost information:					
Income from continuing operations	\$ 6,992.0	\$ 6,822.9	\$ 5,967.8	\$ 5,654.7	\$ 5,261.6
Income from continuing operations per common share ¹	8.06	8.47	8.04	8.01	7.73
Net assets at year end	62,214.4	55,630.7	50,009.0	45,879.0	42,014.8
Historical cost information adjusted for general inflation (average 1982 dollars): ²					
Income from continuing operations	\$ 50.1	\$ 422.5	\$ 982.7	\$ 2,417.9	
Income (loss) from continuing operations per common share ¹	(.11)	.34	1.11	3.23	
Net assets at year end	150,842.0	148,561.4	143,023.1	138,346.2	
Historical cost information adjusted for changes in specific prices (average 1982 dollars): ²					
Income from continuing operations	\$ 1,417.8	\$ 2,251.5	\$ 2,196.4	\$ 2,981.0	
Income from continuing operations per common share ¹	1.50	2.66	2.79	4.04	
Difference between the amount by which current cost of telephone plant would have increased if computed by reference to changes in general price levels and increase in current cost of telephone plant	(6,666.9)	6,118.3	6,374.6	12,980.9	
Net assets at year end	139,443.9	128,954.1	128,435.3	126,959.9	
Other Information: ²					
Benefits from decline in purchasing power of net amounts owed in average 1982 dollars	\$ 2,880.0	\$ 5,830.8	\$ 8,084.9	\$ 9,142.6	
Cash dividends declared per common share:					
At historical cost	\$ 5.40	\$ 5.40	\$ 5.00	\$ 5.00	\$ 4.60
In average 1982 dollars	5.40	5.73	5.86	6.65	6.81
Market price per common share at year end:					
At historical cost ³	\$59.38	\$58.75	\$47.88	\$52.13	\$60.50
In average 1982 dollars	58.43	60.36	53.58	65.31	86.27
Average CPI-U (1982 estimated)	289.2	272.4	246.8	217.4	195.4

*Certain amounts for 1981 and 1980 have been restated, see Note (S). ¹Income from continuing operations per common share is after preferred dividend requirements. ²Certain information for 1978 is not disclosed since it is impractical to obtain. ³Using Composite Tape closing price.

Table C—Analysis of Construction Program and Cash Utilization

Construction program components (approximate):			
IN MILLIONS OF HISTORICAL DOLLARS	1982	1981	1980
Plant replacement	\$ 1,150.1	\$ 1,099.9	\$ 1,051.2
Plant modernization	3,614.1	3,406.6	3,340.0
Customer movement	2,334.9	3,438.6	3,754.3
Growth	9,380.8	9,865.1	8,884.3
	16,479.9	17,810.2	17,029.8
Add interest charged construction	317.6	287.5	271.1
Total construction program	\$16,797.5	\$18,097.7	\$17,300.9
Retirements of telephone plant at historical cost	\$ 6,161.0	\$ 5,744.8	\$ 6,113.3
Internally-generated funds available for investments (see page 34):			
IN MILLIONS OF HISTORICAL DOLLARS	1982	1981*	1980*
Funds from operations	\$20,846.3	\$17,059.3	\$15,112.9
Decrease (increase) in working capital	(2,372.7)	(41.6)	(350.6)
Decrease (increase) in deferred charges and other-net	(463.5)	71.6	(1.3)
	18,010.1	17,089.3	14,761.0
Less dividends	4,742.6	4,402.0	3,769.9
Funds available for investments	13,267.5	12,687.3	10,991.1
Less amount spent on plant replacement, plant modernization, and customer movement	7,099.1	7,945.1	8,145.5
Funds available for growth and other investments	\$ 6,168.4	\$ 4,742.2	\$ 2,845.6

*Restated, see Note (S).

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Jewel Companies, Inc.

Henry B. Schacht
Chairman of the Board,
Cummins Engine Company, Inc.

Rawleigh Warner, Jr.
Chairman of the Board, Mobil Corporation

Thomas H. Wyman
President and Chief Executive Officer, CBS Inc.

*Mr. Jefferson was elected a Director during 1982,
replacing William A. Hewitt, who
was appointed U.S. Ambassador to Jamaica.



Spaceship Earth, the Bell System pavilion at Walt Disney World's new Epcot Center near Orlando, Fla., depicts communications from the Stone Age to the Information Age. At kiosks throughout the park, visitors obtain audio and visual information about attractions simply by touching a television screen—part of an experimental electronic information retrieval system designed by Bell Laboratories.